

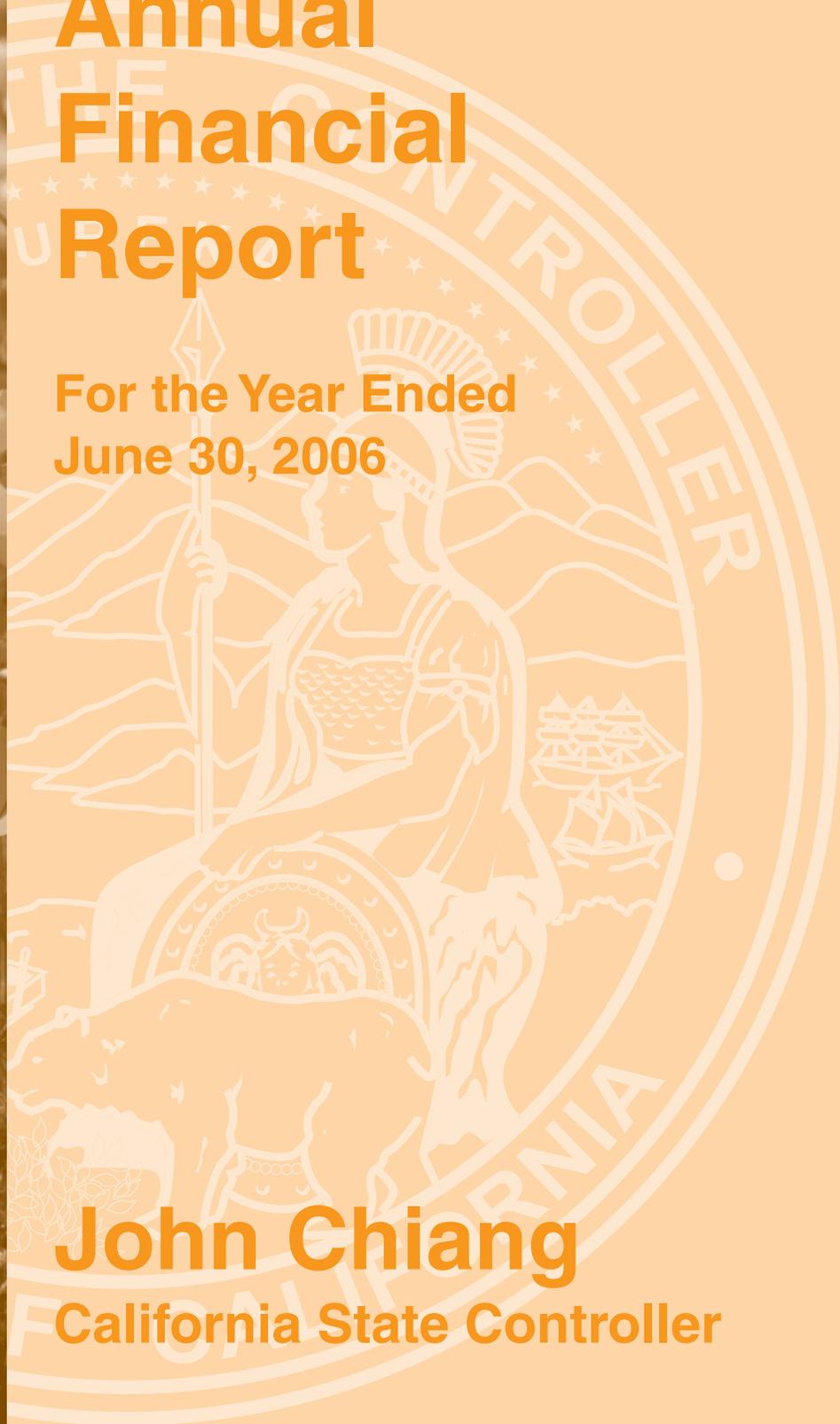
State of California

**Comprehensive
Annual
Financial
Report**

**For the Year Ended
June 30, 2006**

John Chiang

California State Controller



STATE OF CALIFORNIA

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

For the Year Ended
June 30, 2006



*Prepared by
The Office of the State Controller*

*JOHN CHIANG
California State Controller*

Photographs by Robert Holmes/CalTour, Tom Myers, and Long Beach Area Convention & Visitors Bureau (excluding the photograph of John Chiang).

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Introductory Section





JOHN CHIANG
California State Controller



JOHN CHIANG
California State Controller

March 28, 2007

**To the Citizens, Governor, and Members
of the Legislature of the State of California:**

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. This report meets the requirements of Government Code Section 12460 for an annual report prepared strictly in accordance with accounting principles generally accepted in the United States of America (GAAP) and contains information to help readers gain a reasonable understanding of the State's financial activities.

California continued to benefit from strong tax revenue and moderate economic growth in the 2005-06 fiscal year. The State's fiscal year closed with \$96.2 billion from its major tax revenues and a General Fund balance of \$2.7 billion, significantly up from the \$187 million balance at the end of the 2004-05 fiscal year. During the year—a year earlier than anticipated—the State was able to pay \$1.2 billion to local governments, a repayment for reduced motor vehicle license fees paid by the State's motorists. Full transfer in the amount of \$1.3 billion was made to transportation funds, the first year such a transfer has occurred since voters approved Proposition 42 in March 2002. Transfers of gasoline sales tax revenues were suspended in prior fiscal years because of General Fund operating shortfalls. These repayments were possible because the State enjoyed robust tax revenues and took progressive measures to collect outstanding taxes owed. As chairman of the California Franchise Tax Board, I support programs that help collect under-reported taxes and simplify tax filings for Californians.

With the recent slowing of the economy, however, we must stay focused on prudent spending practices that reflect the priorities of the people of California. Several major projects are on the horizon. In November 2006, voters granted approval to sell \$42.7 billion in bonds to build new infrastructure throughout the state. The Legislature must appropriate these funds before the State can commence projects to reduce traffic congestion, improve transit systems and transportation of goods, provide better housing and school facilities, continue work on flood control, and initiate natural resource conservation projects.

Although these bond-funded projects will increase California's annual debt expenses, they will have a positive economic effect on employment and the gross state product. They will also improve transportation networks, raise property values, and create school facilities that will enhance the education of our state's future workforce. All of these activities will further support the state's tax base by increasing personal income and corporate taxes. My office is committed to managing these bond funds and taxpayer dollars to ensure that Californian's interests are protected.

Introduction to the Report

Responsibility for the accuracy, completeness, and fairness of data presented in the CAFR, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and the operations of the primary government and its component units.

State statutes require an annual audit of the basic financial statements of the State. To meet this requirement, the State Auditor has examined the accompanying financial statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The auditor's report on the basic financial statements and the combining and individual fund statements and schedules is included in the CAFR.

The State of California is also required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In conducting the engagement, the State Auditor used auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Information related to this single audit, including a schedule of federal financial assistance, the independent auditor's report on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs, is included in a separately issued single audit report.

The CAFR contains three sections: Introductory, Financial, and Statistical. The Introductory Section is designed to provide the background and context that readers need to benefit fully from the information presented in the Financial Section. The Financial Section contains the independent auditor's report, management's discussion and analysis, the basic financial statements, the required supplementary information, the combining and individual fund statements, and the budgetary comparison schedule for nonmajor governmental cost funds. The Statistical Section provides a history of selected financial and demographic information.

The State's Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. Our MD&A provides a narrative introduction to the detailed financial statements and notes contained in the CAFR.

Profile of the Government

Reporting Entity

The financial reporting entity of the State includes all of the funds of the primary government and of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the building authorities are reported in the capital projects funds of the primary government. The lease agreements between the building authorities and the primary government, amounting to \$606 million, have been eliminated from the balance sheet. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide statements. The Golden State Tobacco Securitization Corporation and the California State University, Channel Islands Site and Financing authorities are reported in the special revenue funds of the primary government.

Discretely presented component units are reported separately in the government-wide financial statements, to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. Additional information on the reporting entity is included in Note 1, Summary of Significant Accounting Policies.

Budgetary Controls

The State Legislature prepares an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. Throughout the fiscal year, adjustments, in the form of budget revisions, executive orders, and financial legislation agreed to by the Governor and the Legislature, are made to the budget. The State Controller is statutorily responsible for control over revenues due the primary government and for expenditure of each appropriation contained in the budget. Budgeted appropriations are the expenditure authorizations that allow state agencies to purchase or create liabilities for goods and services.

The State's accounting system provides the State Controller's Office with a centrally controlled record system to fully account for each budgeted appropriation, including its unexpended balance, and for all cash receipts and disbursements. The accounting system is decentralized, meaning the detail of each control account is maintained by each state agency. During the fiscal year, the control accounts and the agency accounts are maintained and reconciled on a cash basis. At the end of the fiscal year, each agency prepares annual accrual reports for receivables and payables. The State Controller's Office combines its control account balances with the agency accrual reports to prepare California's *Budgetary/Legal Basis Annual Report* and the *Budgetary/Legal Basis Annual Report Supplement*. The methods of accounting for expenditures and revenues in these reports are governed by state laws and regulations that, in some cases, do not fully agree with GAAP.

The information in the CAFR represents a consolidation of the amounts in the *Budgetary/Legal Basis Annual Report* and adjustments to the account balances to conform to GAAP. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, and in the Required Supplementary Information section which follows the Notes to the Financial Statements.

Internal Controls

An internal control structure has been designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with legal requirements and GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In addition, the government maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

Financial Condition

Economic Outlook

As of the end of 2006, the slowdown in real estate was a damper on the economy but did not stall growth. In the first six months of the 2006-07 fiscal year, employment growth in California was moderate. A continued weakness in real estate-related employment was offset by expansion in the service sector. Jobs in

professional and business services, educational and health services, and leisure and hospitality services have all grown at annualized rates of over 3%. Overall, employment is growing at an annualized rate of 1.4%, weaker than the 1.7% of last fiscal year but enough to hold the California unemployment rate to 4.8% in December 2006. One hopeful sign is that construction employment in January 2007 actually grew by 4,700 jobs.

Personal income in the first quarter of the 2006-07 fiscal year grew at an annualized rate of 4.9% – lower than the 6.6% of the prior fiscal year but still a respectable rate of growth. Recently, corporate profits have been stronger than expected. The *Wall Street Journal* reported that profits for companies in the Standard & Poor's 500 Index rose almost 20% in the third quarter of 2006. These healthy profits helped fuel a surge in the stock market in the last half of 2006. Solid employment growth in the nation—206,000 jobs were added in December 2006—indicates that the nation's employers are expecting growth to continue into 2007.

The California Legislative Analyst's budget forecast assumes that the slowdown of U.S. and California economic expansion in 2006 will last through the first half of 2007, before stabilizing real estate markets provide support for an upturn beginning in the second half of the year. Based on an annual average, the forecast has the U.S. gross domestic product growth slowing from 3.3% in 2006 to 2.4% in 2007 before increasing to 2.9% in 2008. In California, wage and salary employment growth is projected to slow from 1.8% in 2006 to 1.2% in 2007, before rebounding to 1.6% in 2008.

Budget Outlook

2006-07 Fiscal Year

The 2006 Budget Act was enacted on June 30, 2006, and authorizes total spending of \$131.4 billion: \$101.3 billion from the General Fund, \$26.6 billion from special funds, and \$3.5 billion from bond funds. Total General Fund resources and expenditures in this budget are projected to be \$103.4 billion and \$101.3 billion, respectively. The budget included funds to repay moneys borrowed from local governments, pre-pay long term debt, and make the first deposit in the Budget Stabilization Account authorized by California voters in 2004.

As planned, on August 2, 2006, the State repaid \$440 million in transportation funds to California's cities and counties—moneys that had been borrowed by the General Fund during the 2003-04 and 2004-05 fiscal years. These funds are used by local governments for traffic congestion relief. Also as budgeted, on September 20, 2006, the Controller made the first transfer to the Budget Stabilization Account, in the amount of \$944 million. Half of this amount remains in the account and the other half will be applied toward early repayment of Economic Recovery Bonds issued in 2004.

2007-08 Fiscal Year

The Governor's Budget for the 2007-08 fiscal year, released on January 10, 2007, seeks total spending of \$143.4 billion: \$103.1 billion from the General Fund, \$27.7 billion from special funds, and \$12.6 billion from bond funds. The proposed 2007-08 General Fund expenditures represent a \$1.8 billion increase over the 2006-07 enacted budget amounts. Total spending from the General Fund and special funds is \$2.9 billion higher than 2006-07 fiscal year spending estimates.

The Governor's Budget also proposes to limit General Fund spending to the amount of revenues the State will collect, except that it will also use \$840 million available from prior years to prepay debt. Major General Fund spending beyond annual program operations includes prepayments and repayments of prior obligations, including \$1.6 billion in prepayment of Economic Recovery Bonds and repayment of \$88 million in other

budgetary debt. The budget also proposes to transfer \$1.0 billion to the Budget Stabilization Account, the State's rainy-day reserve authorized by California voters via Proposition 58.

The Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, estimates that if the Governor's Budget were fully adopted, the State would end the 2007-08 fiscal year with a deficit of \$726 million. The deficit would result from an operating shortfall of \$2.6 billion, which would be only partially offset by the \$1.9 billion reserve estimated to be available at the end of 2006-07. Decreased personal income taxes and less revenue from tribal gaming pacts and pension obligations bonds are expected to result in \$2.0 billion less revenue from the current year and the budget year. The LAO also cites significant risks and budget pressures from possible legal issues related to education spending proposals, unresolved court cases, and increased healthcare costs.

California's Strategic Growth Plan

In May 2006, the Legislature approved a \$115.8 billion Strategic Growth Plan package that included \$37.3 billion in new general obligation bonds that were approved by California's voters in the November 2006 election, \$50.1 billion in existing funding, and \$28.4 billion in new leveraged funding sources. Voters also approved a \$5.4 billion bond initiative for natural resources protections, water, and parks. The 2007-08 Governor's Budget proposes appropriation of \$13.7 billion to commence infrastructure building for California's future generations. The Governor's Budget for the 2007-08 fiscal year seeks additional bond funding to complete critical infrastructure building from now until 2016.

General Obligation Bond Credit Ratings

The State's general obligation bond ratings continued to improve. Standard & Poor's has raised the State's credit ratings from "A" to "A+." Moody's raised the rating from "A2" to "A1." Fitch raised the rating from "A" to "A+." Both Moody's and Standard & Poor's took this action in May 2006, and Fitch did so in June 2006.

Cash Management Policies and Practices

Cash temporarily idle during the year is invested in the Pooled Money Investment Account (PMIA). Investment of PMIA moneys is restricted by law to the following categories: U.S. government securities, securities of federally sponsored agencies, domestic corporate bonds, bank notes, interest-bearing time deposits in California banks and savings and loan associations, prime commercial paper, repurchase and reverse repurchase agreements, security loans, bankers' acceptances, negotiable certificates of deposit, and loans to various bond funds. The average daily investment balance for the year ended June 30, 2006, amounted to \$55.7 billion, with an average effective yield of 3.87%, compared to \$53.9 billion and 2.26% for the year ended June 30, 2005.

The total earnings of the PMIA for the year ended June 30, 2006, amounted to \$2.2 billion, which was distributed as follows: \$450 million to the General Fund, \$1.1 billion to special funds, \$639 million to local governments, \$3.8 million to CalPERS, and \$2.3 million to CalSTRS. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

The State's cash management program for the General Fund regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures. A significant portion of the General Fund revenues are received in the second half of the fiscal year, while disbursements are paid more evenly throughout the fiscal year. If

additional external cash flow borrowing is required, the State issues revenue anticipation warrants (RAWs). Additional information on the State's General Fund cash management program can be found in Note 9, Short-term Financing.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we will submit it to the GFOA to determine its eligibility for another certificate.

This CAFR could not have been prepared without the assistance and cooperation of all state agencies. We wish to thank the State Auditor and her staff for their audit of the financial statements contained in this report. I am also grateful to the members of my staff for their dedicated efforts and professionalism.

Sincerely,

Original Signed By:

JOHN CHIANG
California State Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Principal Officials of the State of California

Executive Branch

Arnold Schwarzenegger
Governor

John Garamendi
Lieutenant Governor

John Chiang
State Controller

Jerry Brown
Attorney General

Bill Lockyer
State Treasurer

Debra Bowen
Secretary of State

Jack O'Connell
Superintendent of Public Instruction

Steve Poizner
Insurance Commissioner

Board of Equalization
Betty T. Yee, Member, First District
Bill Leonard, Member, Second District
Michelle Steel, Member, Third District
Judy May Chu, Member, Fourth District

Legislative Branch

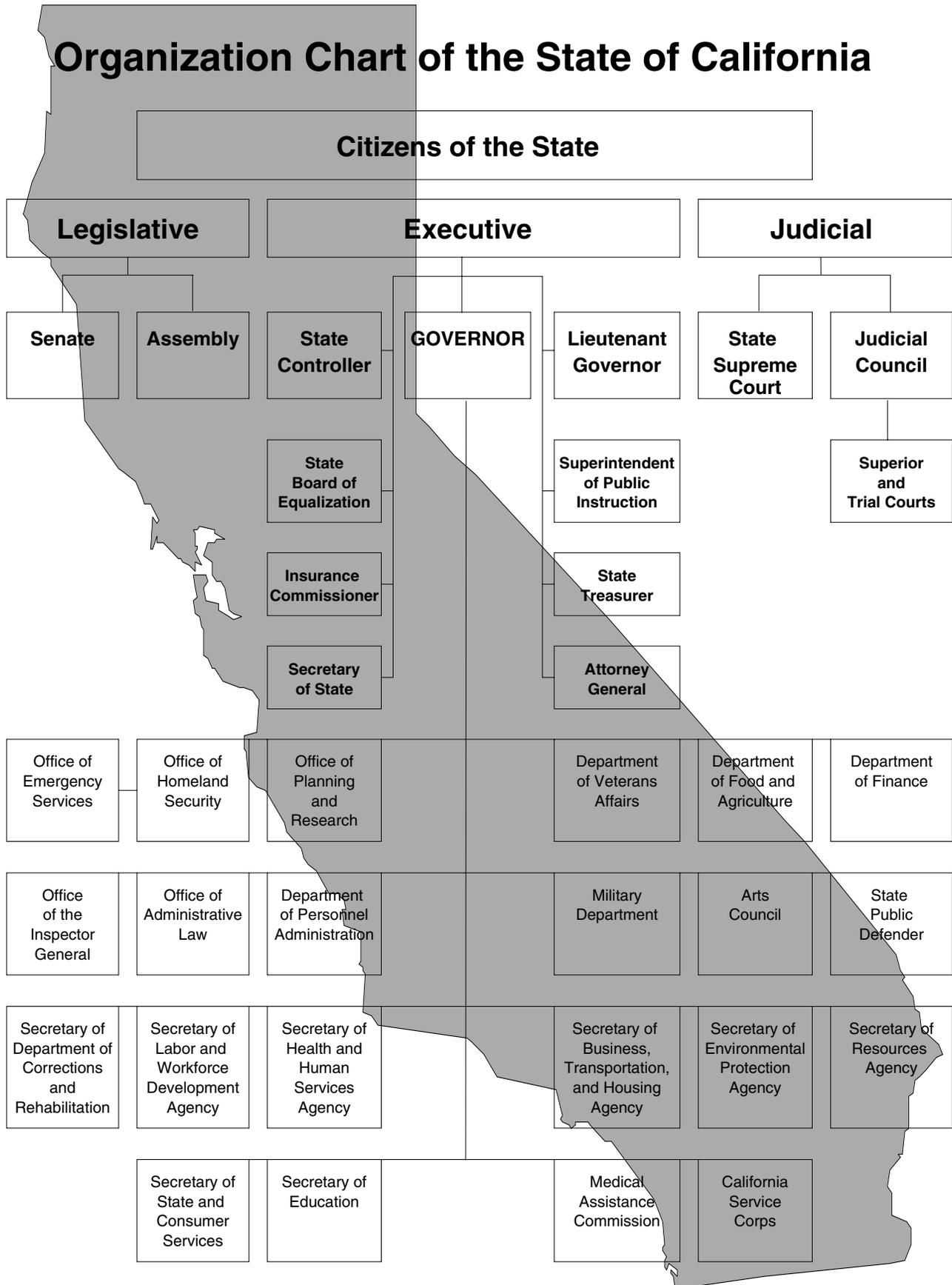
Don Perata
President pro Tempore, Senate

Fabian Núñez
Speaker of the Assembly

Judicial Branch

Ronald M. George
Chief Justice, State Supreme Court

Organization Chart of the State of California



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Financial Section



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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

DOUG CORDINER
CHIEF DEPUTY STATE AUDITOR

Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2006, which collectively comprise the State of California's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of California's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 82 percent, 42 percent, and 52 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets, net assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 89 percent, 79 percent, and 86 percent, respectively, of the assets, net assets, and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 92 percent, 94 percent, and 69 percent, respectively, of the assets, net assets and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing*

BUREAU OF STATE AUDITS

555 Capitol Mall, Suite 300, Sacramento, California 95814 Telephone: (916) 445-0255 Fax: (916) 327-0019

Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances and related notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of California's basic financial statements. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA
Deputy State Auditor

February 21, 2007

Management's Discussion and Analysis

The following Management's Discussion and Analysis is a required supplement to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2006. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's letter of transmittal at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

The State experienced better-than-expected growth in the 2005-06 fiscal year, resulting in a significant increase in general revenues, primarily personal income tax revenues. Even though the State increased program expenses and reduced budgetary borrowing, revenues for the year exceeded expenses, transfers, and special item for governmental activities. Total revenues for the State's business-type activities also exceeded expenses for the year. Therefore, net assets for the 2005-06 fiscal year for both governmental and business-type activities increased by 9.7% over last year.

Net Assets — The primary government's net assets as of June 30, 2006, were \$48.6 billion. After the total net assets are reduced by \$84.3 billion for investment in capital assets (net of related debt) and by \$17.2 billion for restricted net assets, the resulting unrestricted net assets were a negative \$52.9 billion. Restricted net assets are dedicated for specified uses and are not available to fund current activities. More than half of the negative \$52.9 billion consists of \$32.2 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net assets; however, local governments, instead of the State, record the capital assets that would offset this reduction.

Changes in Net Assets — The primary government's total net assets increased by \$4.3 billion (9.7%) during the year ended June 30, 2006. Net assets of governmental activities increased by \$2.7 billion (7.7%), while net assets of business-type activities increased by \$1.6 billion (16.9%).

Fund Highlights

Governmental Funds — As of June 30, 2006, the primary government's governmental funds reported a combined ending fund balance of \$17.2 billion, an increase of \$2.8 billion from the previous fiscal year. After the total fund balance is reduced by \$18.2 billion in reserves, the unreserved fund balance totaled a negative \$1.0 billion.

Proprietary Funds — As of June 30, 2006, the primary government's proprietary funds reported combined ending net assets of \$12.0 billion, an increase of \$1.7 billion from the previous fiscal year. After the total net assets are reduced by \$1.2 billion for investment in capital assets (net of related debt) and expendable restrictions of \$8.7 billion, the unrestricted net assets totaled \$2.1 billion.

Noncurrent Assets and Liabilities

As of June 30, 2006, the primary government's noncurrent assets totaled \$121.3 billion, of which \$95.6 billion is related to capital assets. State highway infrastructure assets of \$55.7 billion represent the largest part of the State's capital assets.

The primary government's noncurrent liabilities totaled \$95.5 billion, which consists of \$47.0 billion in general obligation bonds, \$29.1 billion in revenue bonds, and \$19.4 billion in all other noncurrent liabilities.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information and combining financial statements and schedules.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

To help readers assess the State's economic condition at the end of the fiscal year, the statements provide both short-term and long-term information about the State's financial position. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Assets and the Statement of Activities.

- The *Statement of Net Assets* presents all of the State's assets and liabilities and reports the difference between the two as net assets. Over time, increases or decreases in net assets indicate whether the financial position of the State is improving or deteriorating.
- The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. The State reports changes in net assets as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities: governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including health and human services, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education),

business and transportation, correctional programs, general government, resources, tax relief, state and consumer services, and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing building aid to school districts, operating toll collection facilities, providing services to California State University students, leasing public assets, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.
- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State either financially (i.e., the State is financially accountable for them), or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. The State's financial statements include the information for blended, fiduciary, and discretely presented component units.
 - *Blended component units*, although legally separate entities, are in substance a part of the primary government's operations. Therefore, for reporting purposes, the State integrates data from blended component units into the appropriate funds. The Golden State Tobacco Securitization Corporation, the California State University, Channel Islands Site and Financing authorities, and certain building authorities that are blended component units of the State are included in the governmental activities.
 - *Fiduciary component units* are legally separate from the primary government but, due to their fiduciary nature, are included with the primary government's fiduciary funds. The Public Employees' Retirement System and the State Teachers' Retirement System are fiduciary component units that are included with the State's pension and other employee benefit trust funds, which are not included in the government-wide financial statements.
 - *Discretely presented component units* are legally separate from the primary government and provide services to entities and individuals outside the primary government. The activities of discretely presented component units are presented in a single column in the government-wide financial statements.

Information on how to obtain financial statements of the individual component units is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, CA 94250.

Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds.

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end

of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the flow of current financial resources measurement focus and the modified accrual basis of accounting. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare governmental fund statements to the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Reconciliations located on the pages immediately following the fund statements show the differences between the government-wide statements and the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types: enterprise funds and internal service funds.
 - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.
 - *Internal service funds* accumulate and allocate costs internally among the State of California's various functions. For example, internal service funds provide information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.
- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements, because the resources of these funds are not available to support State of California programs. The accounting used for fiduciary funds and similar component units is similar to that used for proprietary funds.

Discretely Presented Component Units Financial Statements

As discussed previously, the State has financial accountability for discretely presented component units, which have certain independent qualities and operate similarly to private-sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, are located immediately following the discretely presented component units' financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes a schedule of funding progress for certain pension trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a separate reconciliation of the statutory fund balance for budgetary purposes and the fund balance for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents *combining statements* that provide separate financial statements for nonmajor governmental funds, proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these entities.

Government-wide Financial Analysis

Net Assets

The primary government's combined net assets (governmental and business-type activities) increased 9.7%, from \$44.3 billion, as restated at June 30, 2005, to \$48.6 billion a year later. This was slightly lower than the 10.3% increase reported in the 2004-05 fiscal year.

The primary government's \$84.3 billion investment in capital assets, such as land, building, equipment, and infrastructure (roads, bridges, and other immovable assets), comprise a significant portion of its net assets. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported in this publication net of related debt, please note that the resources needed to repay this debt must come from other sources because the State cannot use the capital assets themselves to pay off the liabilities.

Another \$17.2 billion of the primary government's net assets represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net assets. The State may use a positive balance of unrestricted net assets of governmental activities to meet its ongoing obligations to citizens and creditors. As of June 30, 2006, governmental activities showed an unrestricted net assets deficit of \$54.7 billion and business-type activities showed unrestricted net assets of \$1.8 billion.

A large portion of the negative unrestricted net assets of governmental activities is composed of \$32.2 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net assets reported as "investment in capital assets, net of related debt." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net assets. Readers can expect to see a continued deficit in unrestricted net assets of governmental activities as long as the State has significant outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Assets for the primary government.

Table 1**Net Assets – Primary Government**

June 30, 2005 and 2006

(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005*	2006	2005*	2006	2005*
ASSETS						
Current and other assets	\$ 50,240	\$ 43,094	\$ 34,683	\$ 32,661	\$ 84,923	\$ 75,755
Capital assets	89,763	87,178	5,849	6,410	95,612	93,588
Total assets	140,003	130,272	40,532	39,071	180,535	169,343
LIABILITIES						
Noncurrent liabilities	69,382	65,953	26,093	26,383	95,475	92,336
Other liabilities	33,411	29,739	3,097	3,050	36,508	32,789
Total liabilities	102,793	95,692	29,190	29,433	131,983	125,125
NET ASSETS						
Investment in capital assets net of related debt	83,489	79,580	818	837	84,307	80,417
Restricted	8,431	7,631	8,723	7,235	17,154	14,866
Unrestricted	(54,710)	(52,631)	1,801	1,566	(52,909)	(51,065)
Total net assets	\$ 37,210	\$ 34,580	\$ 11,342	\$ 9,638	\$ 48,552	\$ 44,218

* Not restated

Changes in Net Assets

The expenses of the primary government totaled \$182.5 billion for the year ended June 30, 2006. Of this amount, \$84.3 billion (46.2%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving \$98.2 billion to be funded with general revenues (mainly taxes). The primary government's general revenues and special item of \$102.5 billion exceeded the net unfunded expenses. As a result, during the year total net assets increased by \$4.3 billion, or 9.7%.

Of the total increase, net assets for governmental activities increased by \$2.7 billion, while those for business-type activities increased by \$1.6 billion. The increase in governmental activities is primarily due to increased personal income tax revenue. The increase in business-type activities is mainly due to employer contributions and other revenue for unemployment programs exceeding unemployment benefit payments.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2**Changes in Net Assets – Primary Government**

Year ended June 30, 2005 and 2006

(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues:						
Charges for services	\$ 19,188	\$ 16,040	\$ 21,540	\$ 21,417	\$ 40,728	\$ 37,457
Operating grants and contributions	42,254	41,135	—	—	42,254	41,135
Capital grants and contributions	1,273	1,090	57	73	1,330	1,163
General revenues:						
Taxes	100,461	90,908	—	—	100,461	90,908
Investment and interest	505	289	—	—	505	289
Miscellaneous	292	526	—	—	292	526
Total revenues	163,973	149,988	21,597	21,490	185,570	171,478
EXPENSES						
Program expenses:						
General government	9,675	8,809	—	—	9,675	8,809
Education	62,653	53,153	—	—	62,653	53,153
Health and human services	65,763	62,017	—	—	65,763	62,017
Resources	4,162	4,161	—	—	4,162	4,161
State and consumer services	596	1,038	—	—	596	1,038
Business and transportation	8,809	7,142	—	—	8,809	7,142
Correctional programs	7,299	6,611	—	—	7,299	6,611
Tax relief	704	2,157	—	—	704	2,157
Interest on long-term debt	2,894	2,408	—	—	2,894	2,408
Electric Power	—	—	5,342	5,655	5,342	5,655
Water Resources	—	—	950	731	950	731
Public Building Construction	—	—	334	300	334	300
State Lottery	—	—	3,912	3,494	3,912	3,494
Unemployment Programs	—	—	8,585	8,940	8,585	8,940
Nonmajor enterprise	—	—	814	746	814	746
Total expenses	162,555	147,496	19,937	19,866	182,492	167,362
Excess (deficiency) before transfers ...	1,418	2,492	1,660	1,624	3,078	4,116
Transfers	23	28	(23)	(28)	—	—
Special item.....	1,218	—	—	—	1,218	—
Change in net assets	2,659	2,520	1,637	1,596	4,296	4,116
Net assets, beginning of year (restated) ...	34,551	32,060	9,705	8,042 *	44,256	40,102
Net assets, end of year	\$ 37,210	\$ 34,580	\$ 11,342	\$ 9,638	\$ 48,552	\$ 44,218

* Not restated

Governmental Activities

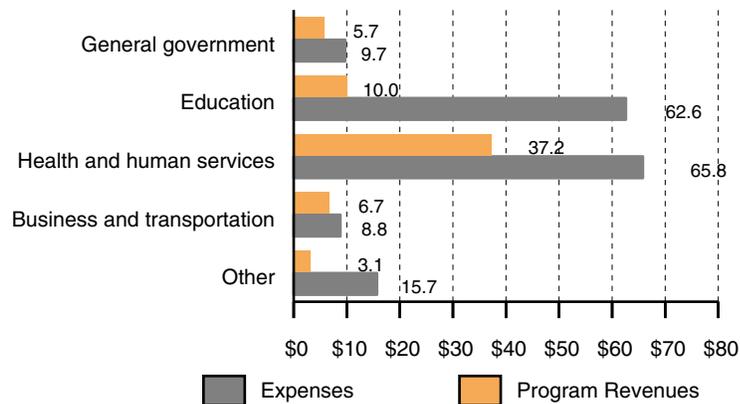
Governmental activities expenses totaled \$162.6 billion. Program revenues funded only \$62.7 billion (38.6%) of that amount, including \$43.5 billion received in federal grants, and general revenues (mainly taxes) funded the remaining \$99.9 billion. General revenues, transfers, and special item for governmental activities totaled \$102.5 billion. Thus, governmental activities' total net assets increased by \$2.7 billion, or 7.7%, during the year ended June 30, 2006.

Chart 1 presents a comparison of governmental activities expenses by program, with related revenues.

Chart 1

Expenses and Program Revenues – Governmental Activities

Year Ended June 30, 2006
(amounts in billions)



For the year ended June 30, 2006, total state tax revenues collected for governmental activities increased by 10.5% over the prior year. The largest increase in state tax revenue occurred in personal income taxes, due to higher-than-expected levels of capital gains from large stock-related transactions and real estate sales, as well as strong business earnings.

Overall expenses for governmental activities increased from the prior year—a \$15.1 billion (or 10.2%) increase. The expenses for all activities except state and consumer services and tax relief increased. The largest increases in expenses were a \$9.5 billion increase in education spending and a \$3.7 billion increase in health and human services spending. Education spending increased for enrollment growth, cost-of-living adjustments, funding restorations to ongoing programs, and the partial settle-up for prior-year Proposition 98 obligations. The increase in health and human services spending was the result of ongoing growth in caseloads and increases in costs and utilization of medical services. The \$1.5 billion decrease in tax relief expenses was the result of the full repayment, in the prior year, of the vehicle license fee gap loan from local governments.

Charts 2 and 3 present the percentage of total expenses for each program of governmental activities and the percentage of total revenues by source.

Chart 2

Expenses by Program
Year ended June 30, 2006
(as a percent)

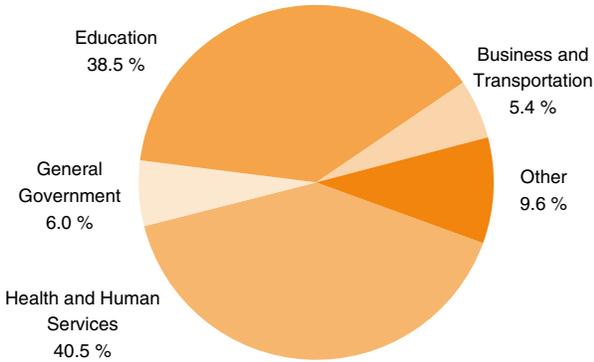
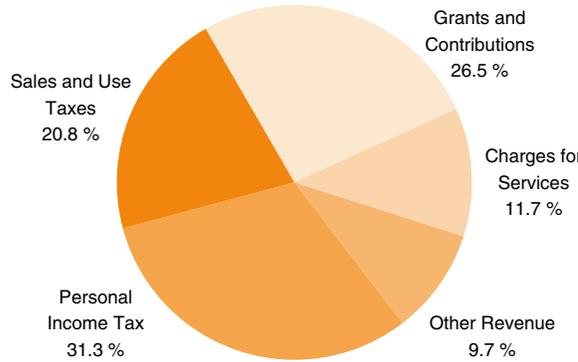


Chart 3

Revenues by Source
Year ended June 30, 2006
(as a percent)



Business-type Activities

Business-type activities expenses totaled \$19.9 billion. Program revenues of \$21.6 billion were generated primarily from charges for services that fully paid these expenses. Consequently, business-type activities' total net assets increased by \$1.6 billion, or 16.9%, during the year ended June 30, 2006.

Most of the increase in net assets was due to a \$1.7 billion increase in unemployment programs' net assets, discussed in more detail in the Fund Financial Analysis section under Proprietary Funds. The revenues of the unemployment programs exceeded expenditures and transfers, due to increased tax rates and a modest increase in employment.

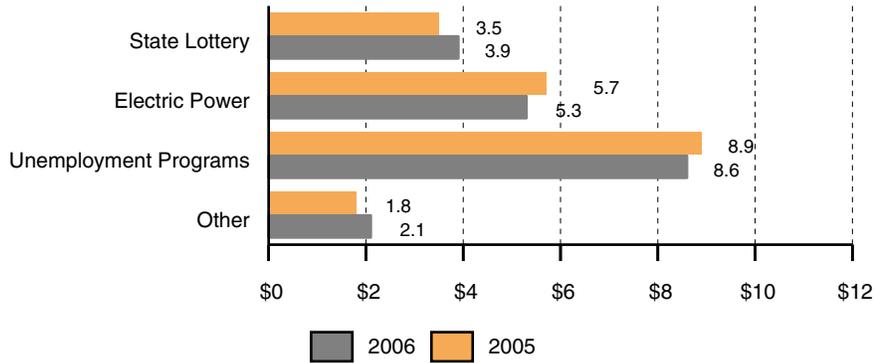
Chart 4 presents a two-year comparison of the expenses of the State’s business-type activities.

Chart 4

Expenses – Business-type Activities – Two-Year Comparison

Year Ended June 30

(amounts in billions)



Fund Financial Analysis

The financial position of the State’s governmental funds continued to improve significantly in the 2005-06 fiscal year. Governmental funds rely heavily on taxes to support the majority of the State’s services and programs. Personal income and sales and use taxes increased during the year. On the other hand, only one of the major proprietary funds, the Unemployment Programs Fund, had total revenues that were significantly different from total expenses during the year ended June 30, 2006.

Governmental Funds

The governmental funds’ Balance Sheet reported \$54.4 billion in assets, \$37.2 billion in liabilities, and \$17.2 billion in fund balance as of June 30, 2006. The largest change in account balance was a \$4.5 billion increase in cash and pooled investments that relates to the higher-than-expected increase in state tax revenue. Within the total fund balance, \$18.2 billion has been set aside in reserve. The reserved amounts are not available for new spending because they have been committed for outstanding contracts and purchase orders (\$5.3 billion), noncurrent interfund receivables and loans receivable (\$4.5 billion), continuing appropriations (\$7.8 billion), and debt service (\$606 million). The unreserved balance of the governmental funds is a negative \$1.0 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows \$163.9 billion in revenues, \$170.1 billion in expenditures, and a net \$9.0 billion in receipts from other financing sources (uses). The ending fund balance of the governmental funds for the year ended June 30, 2006, was \$17.2 billion, a \$2.8 billion increase over the previous year’s restated ending fund balance of \$14.4 billion. The increase in the combined fund balance of the governmental funds was a result of an increase in personal income and sales and use taxes, in both the General Fund and the nonmajor governmental funds. Personal income taxes, which account for 50.6% of tax revenues and 31.0% of total governmental fund revenues, increased by \$8.2 billion over the previous fiscal year. The increase in state tax revenues is attributable to the growth in the economy, higher-than-expected levels of capital gains from large stock-related transactions and real estate sales, strong business earnings, and increased consumer spending.

The State's major governmental funds are the General Fund, the Federal Fund, and the Transportation Construction Fund. The General Fund ended the fiscal year with a fund balance of \$2.7 billion. The Federal Fund and the Transportation Construction Fund ended the fiscal year with fund balances of \$34 million and \$3.4 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of \$11.1 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets of \$21.8 billion, liabilities of \$19.1 billion, and fund balance reserves of \$2.0 billion, leaving the General Fund with an unreserved fund balance of \$673 million. The largest change in asset accounts was in cash and pooled investments, which increased from \$8.1 billion to \$11.7 billion. The increase is primarily due to higher-than-expected cash receipts associated with personal income taxes.

The largest change in liability account balances was an increase of 63.3% in due to other governments (from \$2.8 billion to \$4.6 billion). The increase in the amount due to other governments was caused mainly by the \$1.2 billion current liability for state mandated cost reimbursements to schools and other local governments. Beginning with the 2002-03 fiscal year, the State deferred funding for mandated cost reimbursement programs, but with the increase in General Fund revenues, the State provided funding in the 2006-07 fiscal year budget to pay approximately 42% of the deferred claims for local agencies, school districts, and community colleges.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had \$93.4 billion in revenues, \$89.2 billion in expenditures, and a net \$1.7 billion disbursement from other financing sources (uses) for the year ended June 30, 2006. The largest source of General Fund revenue was \$90.9 billion in taxes, comprised primarily of personal income taxes (\$49.9 billion) and sales and use taxes (\$27.6 billion).

The taxes with the largest increase in revenues were personal income taxes, which increased by \$7.5 billion (17.6%). This increase can be attributed to the higher-than-expected revenues from the growth in the economy, higher-than-expected levels of capital gains from large stock-related transactions and real estate sales, and strong business earnings. Sales and use taxes increased by \$1.8 billion (7.1%), to \$27.6 billion; this increase can be attributed to strong consumer spending demonstrated by increased taxable sales.

General Fund expenditures increased by \$8.8 billion, to \$89.2 billion. The programs with the largest increases were education, which increased by \$5.8 billion, to \$46.6 billion; health and human services, which increased by \$1.3 billion, to \$26.2 billion; and correctional programs, which increased by \$906 million, to \$7.5 billion.

The increase in education expenditures consists of increased funding for enrollment growth and cost-of-living adjustments, partial restoration of deficit funding reductions, and partial payment for prior-year state mandate and Proposition 98 obligations. Health and human service expenditures increased primarily due to ongoing growth in medical and social services caseloads, increases in costs and utilization of medical services, and rate increases for nursing homes and certain other providers. Correctional program expenditures increased primarily to support the reorganization of the correctional program, activate a new prison, fill vacant positions, expand the officer academy, and improve medical and dental services. The General Fund's ending fund balance (including reserves) for the year ended June 30, 2006, was \$2.7 billion, an increase of \$2.5 billion over the previous year's ending fund balance of \$187 million.

Federal Fund: This fund reports federal grant revenues and the related expenditures to support the grant programs. The largest of these program areas is health and human services, which accounted for \$31.3 billion (73.6%) of the total \$42.5 billion in fund expenditures. The Medical Assistance Program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted

a large part of the fund's expenditures—\$7.0 billion (16.5%)—most of which were apportionments made to local educational agencies (school districts, county offices of education, community colleges, etc.).

The Federal Fund's revenues and expenditures increased by approximately the same amount, with revenues increasing slightly more than expenditures, resulting in a \$7 million increase in fund balance from the prior year.

Transportation Construction Fund: This fund accounts for gasoline taxes, bond proceeds, and other revenues used for highway and passenger rail construction. Expenditures increased by 25.5%, while revenues remained relatively stable, with only a 2.5% increase from the prior year. Fund expenditures of \$4.5 billion exceeded revenues by \$819 million. However, the fund balance decreased by only \$333 million, due to an increase in transfers from the General Fund.

Proprietary Funds

Enterprise Funds: In general, the solid growth of the economy did not have as significant an effect on enterprise funds as it did on governmental funds. Most major enterprise funds' activity remained stable, as revenues approximated expenses. The exception was the Unemployment Programs Fund, which had revenues that exceeded expenditures and transfers by \$1.7 billion.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the enterprise funds were \$41.0 billion as of June 30, 2006. Of this amount, current assets totaled \$12.9 billion and noncurrent assets totaled \$28.1 billion. The largest changes in asset account balances were in cash and pooled investments and the amount on deposit with the U.S. Treasury for unemployment programs. Unemployment Programs Fund revenues exceeded expenditures and transfers, leading to the total increase of \$1.9 billion in the two asset account balances. The total liabilities of the enterprise funds were \$29.7 billion. The largest liability accounts were revenue bonds payable of \$21.9 billion and general obligation bonds payable of \$1.8 billion. These accounts decreased during the year because redemption paid on outstanding bonds and bond defeasances exceeded new bonds issued.

Total net assets of the enterprise funds were \$11.3 billion as of June 30, 2006. Total net assets consisted of three segments: expendable restricted net assets of \$8.7 billion; investment in capital assets (net of related debt) of \$818 million; and unrestricted net assets of \$1.8 billion. The Unemployment Programs Fund had the largest net assets, with \$5.7 billion (50.4% of the enterprise funds' total net assets). The expendable restricted net assets of the Unemployment Programs Fund increased by \$1.7 billion due to the net income generated this year.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the proprietary funds, the enterprise funds ended the year with operating revenues of \$20.1 billion, operating expenses of \$17.2 billion, and net disbursements from other transactions of \$1.3 billion. The largest sources of operating revenue were unemployment and disability insurance receipts of \$9.9 billion in the Unemployment Programs Fund and power sales of \$4.4 billion collected by the Electric Power Fund. The largest operating expenses were distributions to beneficiaries of \$8.4 billion by the Unemployment Programs Fund and power purchases (net of recoverable costs) of \$4.3 billion by the Electric Power Fund. The ending net assets of the enterprise funds for the year ended June 30, 2006, were \$11.3 billion, or \$1.6 billion more than the previous year's restated ending fund balance of \$9.7 billion. The main reason for the increase was the \$1.7 billion gain from the Unemployment Programs Fund caused by increased tax rate schedules and a decrease in distributions to beneficiaries caused by less unemployment in the state.

Internal Service Funds: Total net assets of the internal service funds were \$666 million as of June 30, 2006. These net assets consist of two segments: investment in capital assets (net of related debt) of \$399 million and unrestricted net assets of \$267 million.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with net assets of \$2.1 billion. The pension and other employee benefit trust funds ended the fiscal year with net assets of \$363 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net assets of \$16.4 billion. Agency funds act as clearing accounts and thus do not have net assets.

For the year ended June 30, 2006, the fiduciary funds' combined net assets were \$381 billion, a \$35.2 billion increase from prior year restated net assets. The main reason for the increase in net assets was from investment income and an increase in the fair value of investments of retirement funds.

The Economy for the Year Ending June 30, 2006

The big economic news in California and nationally was the impact of increases in interest rates and oil prices. The Federal Open Market Committee raised short-term interest rates by one-quarter of one percent at each of its eight meetings between July 2005 and June 2006, for a total of two percentage points. The federal funds rate increased from 3.25% to 5.25% and the discount rate increased from 4.25% to 6.25%. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve Bank to other depositories overnight. Oil prices increased over 30% during the 2005-06 fiscal year. The impact of both the interest rate increase and the oil price increase resulted in a slowing of the economy, but the slowdown was not as severe as some had predicted. Although short-term interest rates rose by two percentage points during the 2005-06 fiscal year, mortgage rates rose more slowly—by only one percentage point.

The real estate market took the brunt of the economic slowdown. In June 2005, residential real estate sales had reached an all-time high in California, but by June 2006, sales were down 21%. Home prices continued to increase during the 2005-06 fiscal year, but by only 7.4% over the prior year, the smallest annual increase since October 2001. Residential construction permits reached a fiscal year peak of 275,000 units (seasonally adjusted annual rate) in September 2005, but declined 25% by June 2006.

Employment in California was also affected by the real estate slowdown. From June 2005 through December 2005, construction jobs increased by 34,000, but these jobs increased by only 8,100 during the first six months of 2006.

Although decreased construction and manufacturing activity associated with residential real estate slowed the economy, it did not halt growth in service jobs. From January through June 2006, service sector jobs grew at an annualized rate of 1.7%. Personal income growth for the fiscal year was strong, a 6.6% increase from the prior year, with most of the growth occurring in the first three quarters of the fiscal year. However, personal income growth slowed to an annualized rate of 2% by the final quarter of the 2005-06 fiscal year.

General Fund Budget Highlights

The original General Fund budget of \$88.3 billion was increased by \$5.2 billion, mainly due to a \$1.2 billion transfer to a special revenue fund for transportation projects and \$2.3 billion in increased funding to schools from the Proposition 98 funding guarantee, of which \$650 million is for reimbursement of state mandated costs. During the 2005-06 fiscal year, General Fund actual expenditures were \$92.1 billion, \$1.4 billion less than the final budgeted amounts.

Table 3

General Fund Original and Final Budgets

Year ended June 30, 2006

(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
State and consumer services	\$ 550	\$ 555	\$ 5
Business and transportation	14	1,373	1,359
Resources	1,035	1,171	136
Health and human services	27,203	27,474	271
Correctional programs	7,273	7,725	452
Education	43,060	46,007	2,947
General government:			
Tax relief	2,009	2,005	(4)
Debt service	3,236	3,242	6
Other general government	3,900	3,922	22
Total	\$ 88,280	\$ 93,474	\$ 5,194

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$95.6 billion (net of accumulated depreciation). This investment in capital assets includes land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. Depreciable property includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. Infrastructure assets are items that are normally immovable and can be preserved for a greater number of years than most capital assets. Infrastructure assets include roads, bridges, streets and sidewalks, drainage systems, and lighting systems.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4**Capital Assets**

Year ended June 30, 2006

(amounts in millions)

	Governmental	Business-type	Total
	Activities	Activities	
Land	\$ 15,150	\$ 46	\$ 15,196
State highway infrastructure	55,726	—	55,726
Collections – nondepreciable	20	—	20
Buildings and other depreciable property	20,790	8,327	29,117
Less: accumulated depreciation	(8,406)	(3,427)	(11,833)
Construction in progress	6,483	903	7,386
Total	\$ 89,763	\$ 5,849	\$ 95,612

The budget authorized \$1.6 billion for the State's capital outlay program in the 2005-06 fiscal year, not including funding for state highway infrastructure, K-12 schools, state conservancies, and state water projects. State highway infrastructure assets are discussed in more detail in the Required Supplementary Information that follows the notes to the financial statements. Of the \$1.6 billion authorized, \$104 million was from the General Fund; \$441 million was from lease-revenue bonds; \$965 million was from proceeds of various general obligation bonds; and \$70 million from reimbursements, federal funds, and special funds. The major capital projects authorized include:

- \$910 million for numerous construction projects within the University of California, the California State University, and the California Community Colleges;
- \$149 million for the Department of Forestry and Fire Protection to replace six fire stations and address other significant health and safety issues as well as critical infrastructure deficiencies at emergency response facilities; and
- \$131 million for the Department of Corrections and Rehabilitation to meet licensing requirements and address safety and housing issues.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Modified Approach for Infrastructure Assets

The State has adopted the Modified Approach as an alternative to depreciating the cost of its infrastructure (state roadways and bridges). Under the Modified Approach, the State will not report depreciation expense for roads and bridges but will capitalize all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs will be expensed and not capitalized. Under the Modified Approach, the State must maintain an asset management system and demonstrate that it is preserving the infrastructure at or above established condition levels. The State is responsible for maintaining 49,560 lane miles and 12,120 bridges.

During the 2005-06 fiscal year, the actual amount spent on preservation was 73.8% of the estimated budgeted amount needed to maintain the infrastructure assets at the established condition levels. Although the amount spent fell short of the budgeted amount, the assessed conditions of the State’s bridges and roadways are better than the established condition baselines.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets and it presents the established condition standards, condition assessments, and preservation costs.

Debt Administration

At June 30, 2006, the primary government had total bonded debt outstanding of \$79.1 billion. Of this amount, \$49.0 billion (61.9%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the \$49.0 billion of general obligation bonds is \$9.9 billion of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes. The current portion of general obligation bonds outstanding is \$1.9 billion and the long-term portion is \$47.1 billion. The remaining \$30.1 billion (38.1%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is \$1.0 billion and the long-term portion is \$29.1 billion.

Table 5 presents a summary of the primary government’s long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations

Year ended June 30, 2006
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	\$ 45,211	\$ 1,834	\$ 47,045
Revenue bonds	7,201	21,869	29,070
Certificates of participation and commercial paper	342	231	573
Capital lease obligations	4,265	—	4,265
Other noncurrent liabilities	12,363	2,159	14,522
Total noncurrent liabilities	69,382	26,093	95,475
Current portion of long-term obligations	4,475	1,764	6,239
Total long-term obligations	\$ 73,857	\$ 27,857	\$ 101,714

The primary government’s total long-term obligations remained relatively unchanged during the year ended June 30, 2006. The largest change in governmental activities’ long-term obligations is an increase of \$2.8 billion in the Proposition 98 minimum funding guarantee related to a settlement reached with the California Teachers’ Association.

Note 10, Long-term Obligations, and Notes 11 through 16 include additional information on the State’s long-term obligations.

Recent Economic Events and Future Budgets

Recent Economic Conditions

As 2007 begins, economic forecasters are focusing on the soft real estate market. In December 2006, residential sales in California were down 22.2% from last December. Interestingly, the statewide median price paid for California housing was 3.5% higher in December 2005. However, some areas of the State are seeing price declines. San Diego is the largest county to experience a significant price decline, 6.4% from last year, and is being closely watched as a trendsetter. In a joint study by DataQuick and the California Association of Realtors, 53% of the 364 cities studied showed a price decline in housing. Building permits for residential units, a sign of future construction levels, were issued at an annualized rate of 134,000 units in December 2006; this is less than half the rate of the September 2005 peak. There is concern that the real estate slump could spill over to the rest of the economy, but so far the impact on other sectors has been limited and there are signs that the real estate slowdown is leveling out.

California's Future Budgets

California's 2006-07 Budget Act was enacted on June 30, 2006. The total spending plan adopted for the State was \$131.4 billion, including the General Fund, special funds, and bond funds. The General Fund's available resources and expenditures were projected to be \$103.4 billion and \$101.3 billion, respectively. The adopted budget set aside a total of \$4.9 billion to increase General Fund reserves and pay down debt. A total of \$2.8 billion was dedicated to pre-pay general obligation debt, repay various loans from special funds, and reimburse local governments for costs incurred to perform state-mandated programs. The adopted budget authorized a \$2.1 billion year-end reserve (Reserve for Economic Uncertainties of \$1.6 billion and \$472 million in the Budget Stabilization Account).

General Fund revenues come predominately from taxes, with personal income taxes expected to provide 54% of the revenues. California's major taxes (personal income, sales, and corporation taxes) are projected to supply approximately 95% of the General Fund's budgeted resources in the 2006-07 fiscal year.

Governor's Proposed Budget for 2007-08

The Governor released his proposed budget on January 10, 2007. The 2007-08 proposed spending plan totals \$143.4 billion. This spending plan represents estimated General Fund expenditures of \$103.1 billion, special fund expenditures of \$27.7 billion, and bond fund expenditures of \$12.6 billion. Proposed General Fund expenditures are 1.0% higher than the \$102.1 billion expenditures estimated for the 2006-07 fiscal year.

The Governor's budget projects to end the 2007-08 fiscal year with a \$2.1 billion General Fund reserve, including \$1.5 billion in the Budget Stabilization Account. Proposition 58, passed by California's voters in 2004, requires that, beginning in the 2006-07 fiscal year, the State transfer into the Budget Stabilization Account by September 30 of each year a specified portion of estimated general fund revenues until the account balance reaches \$8 billion or 5% of the estimated General Fund revenues, whichever is greater. However, this transfer can be suspended by action of the Governor by June of the preceding fiscal year.

In the 2007-08 *Overview of the Governor's Budget*, the Legislative Analyst's Office, California's nonpartisan fiscal and policy advisor, states that the Governor's budget assumptions on the fiscal benefits of solutions (savings totaling \$3.4 billion) and the outcomes of legal cases appear optimistic and may make implementation

of the proposed budget problematic. The proposed budget continues to demonstrate an annual operating shortfall, whereby the General Fund's operating expenses exceed its revenue.

Proposed budget solutions include reducing General Fund expenditures by \$1.1 billion while using other funds to support home-to-school transportation costs, general obligation bonded debt costs, and developmental services. Other solutions include an estimated \$506 million in new revenues from tribal gaming compacts, California Work Opportunity and Responsibility to Kids (CalWORKS) savings related to the suspension of cost-of-living adjustments, and using bond funds for General Fund flood protection expenditures. Another \$1.2 billion is estimated from lower baseline expenditures, including the administration's projection of higher local property taxes that would reduce the General Fund's spending on schools under the Proposition 98 minimum-funding guarantee. Lastly, the State would need to prevail in the appellate court on two key court decisions to avoid spending an additional \$1.1 billion on pension costs and cost-of-living adjustment on CalWORKS grants.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information to the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250. This report is also available on the Controller's Office Web site at www.sco.ca.gov.

Basic Financial Statements



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Government-wide Financial Statements



Statement of Net Assets

June 30, 2006

(amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and pooled investments	\$ 24,716,323	\$ 5,863,863	\$ 30,580,186	\$ 2,501,603
Amount on deposit with U.S. Treasury	—	2,845,412	2,845,412	—
Investments	1,399,654	434,614	1,834,268	12,950,423
Restricted assets:				
Cash and pooled investments	—	1,695,765	1,695,765	11,902
Investments	—	—	—	52,943
Due from other governments	—	58,300	58,300	—
Net investment in direct financing leases	—	306,488	306,488	—
Receivables (net)	10,176,978	536,559	10,713,537	3,803,268
Internal balances	128,153	(128,153)	—	—
Due from primary government	—	—	—	169,502
Due from other governments	9,947,176	201,364	10,148,540	651,067
Prepaid items	47,240	7,330	54,570	7,083
Inventories	45,248	26,418	71,666	129,503
Recoverable power costs (net)	—	613,000	613,000	—
Other current assets	309,942	5,134	315,076	177,809
Total current assets	46,770,714	12,466,094	59,236,808	20,455,103
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	1,339,092	1,339,092	115,502
Investments	—	683,066	683,066	87,508
Loans receivable	—	569,003	569,003	—
Investments	—	1,784,519	1,784,519	33,216,284
Net investment in direct financing leases	—	6,154,395	6,154,395	—
Receivables (net)	1,209,397	30,503	1,239,900	881,827
Loans receivable	1,999,845	3,078,586	5,078,431	6,217,156
Recoverable power costs (net)	—	7,229,000	7,229,000	—
Deferred charges	259,634	1,345,233	1,604,867	58,273
Capital assets:				
Land	15,150,360	45,784	15,196,144	666,904
State highway infrastructure	55,725,491	—	55,725,491	—
Collections – nondepreciable	20,417	—	20,417	258,378
Buildings and other depreciable property	20,789,934	8,327,033	29,116,967	25,590,366
Less: accumulated depreciation	(8,406,276)	(3,426,467)	(11,832,743)	(11,751,446)
Construction in progress	6,483,154	902,625	7,385,779	3,234,846
Other noncurrent assets	—	4,231	4,231	1,563,492
Total noncurrent assets	93,231,956	28,066,603	121,298,559	60,139,090
Total assets	\$ 140,002,670	\$ 40,532,697	\$ 180,535,367	\$ 80,594,193

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 14,577,297	\$ 536,588	\$ 15,113,885	\$ 1,959,396
Due to component units	157,332	12,170	169,502	—
Due to other governments	7,205,900	94,034	7,299,934	1,418
Dividends payable	—	—	—	3,100
Deferred revenue	—	55,074	55,074	737,738
Tax overpayments	4,148,462	—	4,148,462	—
Deposits	230,358	3,301	233,659	489,058
Contracts and notes payable	50,946	2,000	52,946	10,419
Advance collections	593,389	26,030	619,419	229,137
Interest payable	742,108	185,674	927,782	126,856
Securities lending obligations	—	—	—	5,018,638
Benefits payable	—	347,530	347,530	3,662,040
Current portion of long-term obligations	4,474,559	1,763,835	6,238,394	2,401,185
Other current liabilities	1,230,731	70,633	1,301,364	1,358,007
Total current liabilities	33,411,082	3,096,869	36,507,951	15,996,992
Noncurrent liabilities:				
Loans payable	1,054,674	—	1,054,674	9,078
Benefits payable	—	14,008	14,008	16,356,886
Lottery prizes and annuities	—	1,559,298	1,559,298	—
Compensated absences payable	1,675,006	24,792	1,699,798	276,915
Certificates of participation, commercial paper, and other borrowings	341,896	231,121	573,017	153,417
Capital lease obligations	4,265,200	—	4,265,200	2,110,184
General obligation bonds payable	45,211,387	1,833,945	47,045,332	—
Revenue bonds payable	7,200,643	21,869,598	29,070,241	13,009,259
Other noncurrent liabilities	9,633,213	560,492	10,193,705	1,668,844
Total noncurrent liabilities	69,382,019	26,093,254	95,475,273	33,584,583
Total liabilities	102,793,101	29,190,123	131,983,224	49,581,575
NET ASSETS				
Investment in capital assets, net of related debt	83,489,137	818,405	84,307,542	9,203,956
Restricted:				
Nonexpendable – endowments	—	—	—	2,980,295
Expendable:				
Endowments and gifts	—	—	—	6,381,323
Business and transportation	881,474	128,574	1,010,048	1,267,313
Resources	1,747,984	1,651,228	3,399,212	—
Health and human services	1,819,875	89,308	1,909,183	—
Education	1,206,333	495,486	1,701,819	1,543,361
General government	2,708,331	620,024	3,328,355	743,024
Unemployment programs	67,282	5,738,245	5,805,527	—
Workers' compensation liability	—	—	—	3,280,285
Total expendable	8,431,279	8,722,865	17,154,144	13,215,306
Unrestricted	(54,710,847)	1,801,304	(52,909,543)	5,613,061
Total net assets	37,209,569	11,342,574	48,552,143	31,012,618
Total liabilities and net assets	\$ 140,002,670	\$ 40,532,697	\$ 180,535,367	\$ 80,594,193

Statement of Activities

Year Ended June 30, 2006
(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 9,674,816	\$ 4,614,567	\$ 1,052,381	\$ —
Education	62,652,997	3,360,919	6,644,942	—
Health and human services	65,763,380	4,554,673	32,658,966	—
Resources	4,161,814	2,198,886	69,348	—
State and consumer services	595,602	640,088	29,873	—
Business and transportation	8,809,236	3,776,098	1,689,809	1,272,506
Correctional programs	7,299,124	37,203	108,746	—
Tax relief	704,306	5,463	—	—
Interest on long-term debt	2,893,537	—	—	—
Total governmental activities	<u>162,554,812</u>	<u>19,187,897</u>	<u>42,254,065</u>	<u>1,272,506</u>
Business-type activities:				
Electric Power	5,342,000	5,342,000	—	—
Water Resources	949,691	949,691	—	—
Public Building Construction	334,094	384,442	—	—
State Lottery	3,911,717	3,740,041	—	—
Unemployment Programs	8,584,521	10,263,447	—	—
High Technology Education	30,871	26,508	—	—
Toll Facilities	18,265	21	—	—
State University Dormitory Building				
Maintenance and Equipment	491,914	512,231	—	—
State Water Pollution Control Revolving	20,427	64,740	—	56,942
Housing Loan	138,988	127,733	—	—
Other enterprise programs	113,976	129,048	—	—
Total business-type activities	<u>19,936,464</u>	<u>21,539,902</u>	<u>—</u>	<u>56,942</u>
Total primary government	\$ <u>182,491,276</u>	\$ <u>40,727,799</u>	\$ <u>42,254,065</u>	\$ <u>1,329,448</u>
Component units:				
University of California	\$ 20,293,238	\$ 12,116,518	\$ 7,067,721	\$ 166,502
State Compensation Insurance Fund	6,023,356	5,946,401	—	—
California Housing Finance Agency	512,786	10,970	115,745	—
Public Employees' Benefit Fund	3,164,569	3,102,717	—	—
Nonmajor component units	1,922,969	1,088,497	523,518	8,309
Total component units	\$ <u>31,916,918</u>	\$ <u>22,265,103</u>	\$ <u>7,706,984</u>	\$ <u>174,811</u>

General revenues:
Personal income taxes
Sales and use taxes
Corporation taxes
Insurance taxes
Other taxes
Investment and interest
Escheat
Other
Transfers
Special item**
Total general and other revenues and transfers
Change in net assets
Net assets, July 1, 2005
Net assets, June 30, 2006

* Restated

** A related organization assumed debt on the State's behalf; refer to Note 16, Revenue Bonds.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (4,007,868)		\$ (4,007,868)	
(52,647,136)		(52,647,136)	
(28,549,741)		(28,549,741)	
(1,893,580)		(1,893,580)	
74,359		74,359	
(2,070,823)		(2,070,823)	
(7,153,175)		(7,153,175)	
(698,843)		(698,843)	
(2,893,537)		(2,893,537)	
<u>(99,840,344)</u>		<u>(99,840,344)</u>	
	\$ —	—	
	—	—	
	50,348	50,348	
	(171,676)	(171,676)	
	1,678,926	1,678,926	
	(4,363)	(4,363)	
	(18,244)	(18,244)	
	20,317	20,317	
	101,255	101,255	
	(11,255)	(11,255)	
	15,072	15,072	
	<u>1,660,380</u>	<u>1,660,380</u>	
<u>(99,840,344)</u>	<u>1,660,380</u>	<u>(98,179,964)</u>	
			\$ (942,497)
			(76,955)
			(386,071)
			(61,852)
			<u>(302,645)</u>
			<u>(1,770,020)</u>
51,251,266	—	51,251,266	—
34,162,177	—	34,162,177	—
10,735,792	—	10,735,792	—
2,212,916	—	2,212,916	—
2,099,075	—	2,099,075	—
504,655	—	504,655	2,195,211
291,549	—	291,549	—
—	—	—	2,147,766
23,259	(23,259)	—	—
1,218,311	—	1,218,311	—
<u>102,499,000</u>	<u>(23,259)</u>	<u>102,475,741</u>	<u>4,342,977</u>
2,658,656	1,637,121	4,295,777	2,572,957
<u>34,550,913</u> *	<u>9,705,453</u> *	<u>44,256,366</u>	<u>28,439,661</u> *
<u>\$ 37,209,569</u>	<u>\$ 11,342,574</u>	<u>\$ 48,552,143</u>	<u>\$ 31,012,618</u>

The notes to the financial statements are an integral part of this statement.

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Fund Financial Statements



Balance Sheet

Governmental Funds

June 30, 2006
(amounts in thousands)

	<u>General</u>	<u>Federal</u>	<u>Transportation Construction</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
ASSETS					
Cash and pooled investments	\$ 11,663,245	\$ 465,273	\$ 1,275,847	\$ 10,710,394	\$ 24,114,759
Investments	—	—	—	1,399,654	1,399,654
Receivables (net)	8,086,204	76,666	396,365	1,335,800	9,895,035
Due from other funds	927,328	354	1,747,957	1,692,236	4,367,875
Due from other governments	938,933	8,808,357	5,963	179,448	9,932,701
Interfund receivables	52,905	—	492,900	1,961,781	2,507,586
Loans receivable	99,640	40,986	—	1,823,878	1,964,504
Other assets	40,563	—	112,088	75,364	228,015
Total assets	\$ 21,808,818	\$ 9,391,636	\$ 4,031,120	\$ 19,178,555	\$ 54,410,129
LIABILITIES					
Accounts payable	\$ 1,539,773	\$ 1,546,275	\$ 124,700	\$ 3,003,278	\$ 6,214,026
Due to other funds	4,995,798	5,835,854	21,374	1,182,797	12,035,823
Due to component units	90,453	—	—	59,973	150,426
Due to other governments	4,598,444	1,908,955	281,311	1,754,039	8,542,749
Interfund payables	3,015,235	—	—	506,749	3,521,984
Tax overpayments	4,141,413	—	—	7,049	4,148,462
Deposits	5,822	—	8,709	215,067	229,598
Contracts and notes payable	—	—	—	42,196	42,196
Advance collections	29,017	40,179	4,923	281,285	355,404
Interest payable	5,526	9,878	—	210,836	226,240
General obligation bonds payable.....	—	—	—	173,540	173,540
Other liabilities	714,522	16,055	218,810	638,106	1,587,493
Total liabilities	19,136,003	9,357,196	659,827	8,074,915	37,227,941
FUND BALANCES					
Reserved for:					
Encumbrances	608,152	—	1,658,430	3,081,356	5,347,938
Interfund receivables	52,905	—	492,900	1,961,781	2,507,586
Loans receivable	99,640	40,986	—	1,823,878	1,964,504
Continuing appropriations	1,239,256	—	3,829,889	2,703,340	7,772,485
Debt service.....	—	—	—	605,921	605,921
Unreserved, reported in:					
General Fund	672,862	—	—	—	672,862
Special revenue funds	—	(6,546)	(2,609,926)	1,809,914	(806,558)
Capital projects funds	—	—	—	(882,550)	(882,550)
Total fund balances	2,672,815	34,440	3,371,293	11,103,640	17,182,188
Total liabilities and fund balances	\$ 21,808,818	\$ 9,391,636	\$ 4,031,120	\$ 19,178,555	

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

(amounts in thousands)

Total fund balances – governmental funds	\$ 17,182,188
Amounts reported for governmental activities in the Statement of Net Assets are different from the governmental funds Balance Sheet because:	
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	89,338,482
• Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported.	1,209,397
• Internal service funds are used by management to charge the costs of certain activities, such as fleet management and management information systems, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	665,880
• Deferred bond issue costs, discounts, and premiums are reported as current expenditures in the funds. However, deferred issue costs and net discounts are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.	259,634
• General obligation bonds totaling \$47,346,145 and revenue bonds totaling \$7,300,638 are not due and payable in the current period and, therefore, are not reported in the funds.	(54,646,783)
• Certain long-term liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds:	
Compensated absences adjustments	(1,714,105)
Certificates of participation and commercial paper adjustments	(923,890)
Capital lease adjustments	(4,454,707)
Other long-term obligations	(9,706,527)
	(16,799,229)
Net assets of governmental activities	\$ 37,209,569

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2006

(amounts in thousands)

	General	Federal	Transportation Construction	Nonmajor Governmental	Total
REVENUES					
Personal income taxes	\$ 49,903,435	\$ —	\$ —	\$ 894,983	\$ 50,798,418
Sales and use taxes	27,613,417	—	2,478,510	4,208,475	34,300,402
Corporation taxes	10,709,792	—	—	—	10,709,792
Insurance taxes	2,212,916	—	—	—	2,212,916
Other taxes	458,644	—	—	1,909,026	2,367,670
Intergovernmental	—	43,507,965	—	1,958,220	45,466,185
Licenses and permits	47,286	—	949,166	4,128,771	5,125,223
Charges for services	193,390	—	95,370	713,650	1,002,410
Fees	577,635	—	—	4,737,468	5,315,103
Penalties	65,399	1,496	—	626,308	693,203
Investment and interest	458,406	—	68,333	531,380	1,058,119
Escheat	291,549	—	—	—	291,549
Other	880,915	—	64,009	3,573,697	4,518,621
Total revenues	93,412,784	43,509,461	3,655,388	23,281,978	163,859,611
EXPENDITURES					
Current:					
General government	2,427,166	1,100,295	9,214	5,047,397	8,584,072
Education	46,649,106	6,974,878	980	6,143,713	59,768,677
Health and human services	26,157,469	31,252,257	—	8,558,707	65,968,433
Resources	1,002,126	184,176	17	3,110,396	4,296,715
State and consumer services	484,488	29,919	—	596,721	1,111,128
Business and transportation	245,711	2,879,845	4,403,909	2,841,124	10,370,589
Correctional programs	7,528,417	22,899	—	1,474	7,552,790
Tax relief	810,236	—	—	—	810,236
Capital outlay	748,037	—	—	1,380,013	2,128,050
Debt service:					
Bond and commercial paper retirement	1,380,372	47,845	—	4,947,390	6,375,607
Interest and fiscal charges	1,763,830	24,493	60,148	1,287,292	3,135,763
Total expenditures	89,196,958	42,516,607	4,474,268	33,914,227	170,102,060
Excess (deficiency) of revenues over (under) expenditures	4,215,826	992,854	(818,880)	(10,632,249)	(6,242,449)
OTHER FINANCING SOURCES (USES)					
General obligation bonds and commercial paper issued	—	—	—	7,750,500	7,750,500
Refunding bonds issued	—	—	2,555	5,084,389	5,086,944
Payment to refunding agent	—	—	(2,555)	(4,559,389)	(4,561,944)
Capital leases	748,037	—	—	—	748,037
Transfers in	725,629	—	488,215	3,924,051	5,137,895
Transfers out	(3,203,534)	(985,442)	(2,108)	(922,023)	(5,113,107)
Total other financing sources (uses) ...	(1,729,868)	(985,442)	486,107	11,277,528	9,048,325
Net change in fund balances	2,485,958	7,412	(332,773)	645,279	2,805,876
Fund balances, July 1, 2005	186,857	27,028	3,704,066 *	10,458,361 *	14,376,312
Fund balances, June 30, 2006	\$ 2,672,815	\$ 34,440	\$ 3,371,293	\$ 11,103,640	\$ 17,182,188

* Restated

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds	\$ 2,805,876
<p>Amounts reported for governmental activities in the Statement of Activities are different from the Statement of Revenues, Expenditures, and Changes in Fund Balances of governmental funds because:</p>	
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. 	2,575,851
<ul style="list-style-type: none"> • Revenues in the Statement of Activities that do not provide current financial resources are deferred and not reported as revenues in the funds. 	112,288
<ul style="list-style-type: none"> • Bonds and other noncurrent financing instruments provide current financial resources to governmental funds in the form of debt, which increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The following amounts represent the difference between proceeds and repayments. 	
General obligation bond adjustments	(1,125,862)
Revenue bond adjustments	768,342
Certificates of participation and commercial paper adjustments	(171,877)
	(529,397)
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 	
Compensated absences	(132,631)
Lease adjustments	(541,234)
Other long-term obligations	(1,682,344)
	(2,356,209)
<ul style="list-style-type: none"> • Internal service funds are used by management to charge the costs of certain activities, such as fleet management and management information systems, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 	50,247
Change in net assets of governmental activities	\$ 2,658,656

Statement of Net Assets

Proprietary Funds

June 30, 2006
(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
ASSETS		
Current assets:		
Cash and pooled investments	\$ 5,000	\$ 295,326
Amount on deposit with U.S. Treasury	—	—
Investments	70,000	—
Restricted assets:		
Cash and pooled investments	1,464,000	—
Due from other governments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	109,952
Due from other funds	33,000	5,349
Due from other governments	—	7,495
Prepaid items	—	—
Inventories	—	13,450
Recoverable power costs (net)	613,000	—
Other current assets	—	100
Total current assets	2,185,000	431,672
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	901,000	170,834
Investments	600,000	48,553
Loans receivable	—	—
Investments	—	—
Net investment in direct financing leases	—	—
Receivables	—	—
Interfund receivables	—	91,517
Loans receivable	—	26,403
Recoverable power costs (net)	7,229,000	—
Deferred charges	—	1,233,507
Capital assets:		
Land	—	—
Buildings and other depreciable property	—	4,566,362
Less: accumulated depreciation	—	(1,722,093)
Construction in progress	—	176,333
Other noncurrent assets	—	—
Total noncurrent assets	8,730,000	4,591,416
Total assets	\$ 10,915,000	\$ 5,023,088

Business-type Activities – Enterprise Funds					Governmental
Public Building	State	Unemployment	Nonmajor		Internal
Construction	Lottery	Programs	Enterprise	Total	Service Funds
\$ —	\$ 366,662	\$ 3,057,211	\$ 2,139,664	\$ 5,863,863	\$ 601,570
—	—	2,845,412	—	2,845,412	—
—	340,053	—	24,561	434,614	—
103,274	—	—	128,491	1,695,765	—
—	—	—	58,300	58,300	—
288,296	—	—	18,192	306,488	—
126,480	228,844	156,814	44,188	666,278	149,458
47,861	5,640	36,927	27,729	156,506	356,903
—	18,348	69,722	105,799	201,364	14,475
—	7,272	—	58	7,330	47,240
—	9,003	—	3,965	26,418	45,248
—	—	—	—	613,000	—
—	—	—	5,034	5,134	48,375
565,911	975,822	6,166,086	2,555,981	12,880,472	1,263,269
266,361	—	—	897	1,339,092	—
—	—	—	34,513	683,066	—
—	—	—	569,003	569,003	—
—	1,657,839	—	126,680	1,784,519	—
5,826,034	—	—	328,361	6,154,395	—
—	—	30,503	—	30,503	—
—	—	—	2,246	93,763	—
—	—	—	3,052,183	3,078,586	—
—	—	—	—	7,229,000	—
64,643	17,549	—	29,534	1,345,233	—
—	4,923	—	40,861	45,784	231
—	82,234	14,628	3,663,809	8,327,033	1,145,688
—	(44,230)	(5,165)	(1,654,979)	(3,426,467)	(724,845)
389,149	—	—	337,143	902,625	3,524
—	—	—	4,231	4,231	—
6,546,187	1,718,315	39,966	6,534,482	28,160,366	424,598
\$ 7,112,098	\$ 2,694,137	\$ 6,206,052	\$ 9,090,463	\$ 41,040,838	\$ 1,687,867

(continued)

Statement of Net Assets (continued)

Proprietary Funds

June 30, 2006

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 394,000	\$ 69,733
Due to other funds	—	7,549
Due to component units	—	—
Due to other governments	—	81,535
Deferred revenue	—	—
Deposits	—	—
Contracts and notes payable	—	—
Advance collections	—	—
Interest payable	56,000	19,713
Benefits payable	—	—
Current portion of long-term obligations	470,000	138,014
Other current liabilities	—	—
Total current liabilities	<u>920,000</u>	<u>316,544</u>
Noncurrent liabilities:		
Interfund payables	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Certificates of participation, commercial paper, and other borrowings	—	128,741
Capital lease obligations	—	—
General obligation bonds payable	—	634,750
Revenue bonds payable	9,995,000	2,318,473
Other noncurrent liabilities	—	419,149
Total noncurrent liabilities	<u>9,995,000</u>	<u>3,501,113</u>
Total liabilities	<u>10,915,000</u>	<u>3,817,657</u>
NET ASSETS		
Investment in capital assets, net of related debt	—	224,246
Restricted – Expendable:		
Construction	—	981,185
Debt service	—	—
Security for revenue bonds	—	—
Lottery	—	—
Unemployment program	—	—
Other purposes	—	—
Total expendable	<u>—</u>	<u>981,185</u>
Unrestricted	—	—
Total net assets	<u>—</u>	<u>1,205,431</u>
Total liabilities and net assets	<u>\$ 10,915,000</u>	<u>\$ 5,023,088</u>

Business-type Activities – Enterprise Funds					Governmental
Public Building	State	Unemployment	Nonmajor		Internal
Construction	Lottery	Programs	Enterprise	Total	Service Funds
\$ 4,072	\$ 35,782	\$ 17	\$ 22,134	\$ 525,738	\$ 161,727
90,697	323,263	23,037	71,484	516,030	409,341
5,148	—	—	7,022	12,170	6,906
945	—	10,773	781	94,034	171
—	—	—	55,074	55,074	—
—	—	—	3,301	3,301	760
—	—	—	2,000	2,000	8,750
19,084	2,934	—	4,012	26,030	237,985
63,159	—	—	46,802	185,674	—
—	—	347,530	—	347,530	—
324,630	661,766	—	169,425	1,763,835	20,404
—	—	69,205	1,428	70,633	3,251
507,735	1,023,745	450,562	383,463	3,602,049	849,295
—	—	—	2,961	2,961	95,737
—	—	—	14,008	14,008	—
—	1,559,298	—	—	1,559,298	—
—	4,821	7,736	12,235	24,792	44,082
—	—	—	102,380	231,121	—
—	—	—	—	—	10,015
—	—	—	1,199,195	1,833,945	—
6,438,926	—	—	3,117,199	21,869,598	—
—	2,042	—	139,301	560,492	22,857
6,438,926	1,566,161	7,736	4,587,279	26,096,215	172,691
6,946,661	2,589,906	458,298	4,970,742	29,698,264	1,021,986
—	42,927	9,509	541,723	818,405	399,189
141,968	—	—	445,946	1,569,099	—
23,469	—	—	138,165	161,634	—
—	—	—	627,303	627,303	—
—	104,231	—	—	104,231	—
—	—	5,738,245	—	5,738,245	—
—	—	—	522,353	522,353	—
165,437	104,231	5,738,245	1,733,767	8,722,865	—
—	(42,927)	—	1,844,231	1,801,304	266,692
165,437	104,231	5,747,754	4,119,721	11,342,574	665,881
\$ 7,112,098	\$ 2,694,137	\$ 6,206,052	\$ 9,090,463	\$ 41,040,838	\$ 1,687,867

(concluded)

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2006

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
OPERATING REVENUES		
Unemployment and disability insurance	\$ —	\$ —
Lottery ticket sales	—	—
Power sales	4,370,000	291,793
Student tuition and fees	—	—
Services and sales	—	657,898
Investment and interest	—	—
Rent	—	—
Other	—	—
Total operating revenues	4,370,000	949,691
OPERATING EXPENSES		
Lottery prizes	—	—
Power purchases (net of recoverable power costs)	4,337,000	330,665
Personal services	—	185,503
Supplies	—	—
Services and charges	33,000	189,535
Depreciation	—	77,980
Distributions to beneficiaries	—	—
Interest expense	—	—
Amortization of deferred charges	—	—
Other	—	—
Total operating expenses	4,370,000	783,683
Operating income (loss)	—	166,008
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	972,000	—
Interest expense and fiscal charges	(972,000)	(150,170)
Lottery payments for education	—	—
Other	—	(15,838)
Total nonoperating revenues (expenses)	—	(166,008)
Income (loss) before contributions and transfers	—	—
Capital contributions	—	—
Transfers in	—	—
Transfers out	—	—
Change in net assets	—	—
Total net assets, July 1, 2005	—	1,205,431
Total net assets, June 30, 2006	\$ —	\$ 1,205,431

* Restated

Business-type Activities – Enterprise Funds					Governmental
Public Building	State	Unemployment	Nonmajor		Internal
Construction	Lottery	Programs	Enterprise	Total	Service Funds
\$ —	\$ —	\$ 9,930,563	\$ —	\$ 9,930,563	\$ —
—	3,584,996	—	—	3,584,996	—
—	—	—	—	4,661,793	—
—	—	—	455,176	455,176	—
—	—	128,915	91,142	877,955	2,245,901
27,866	—	—	169,028	196,894	152
356,520	—	—	51,422	407,942	—
56	—	—	17,412	17,468	—
384,442	3,584,996	10,059,478	784,180	20,132,787	2,246,053
—	1,932,721	—	—	1,932,721	—
—	—	—	—	4,667,665	—
—	41,201	126,532	148,100	501,336	641,461
—	16,125	—	—	16,125	8,962
9,832	346,992	64,950	240,376	884,685	1,468,437
—	8,710	589	122,659	209,938	82,018
—	—	8,392,450	—	8,392,450	—
317,282	—	—	233,886	551,168	905
6,980	35	—	168	7,183	—
—	—	—	59,267	59,267	—
334,094	2,345,784	8,584,521	804,456	17,222,538	2,201,783
50,348	1,239,212	1,474,957	(20,276)	2,910,249	44,270
—	154,192	203,969	75,161	1,405,322	4,598
—	(307,425)	—	(9,857)	(1,439,452)	(28)
—	(1,258,508)	—	—	(1,258,508)	—
—	853	—	812	(14,173)	(222)
—	(1,410,888)	203,969	66,116	(1,306,811)	4,348
50,348	(171,676)	1,678,926	45,840	1,603,438	48,618
—	—	—	56,942	56,942	3,053
25,070	—	11,944	7,870	44,884	227
(6,584)	—	—	(61,559)	(68,143)	(1,651)
68,834	(171,676)	1,690,870	49,093	1,637,121	50,247
96,603	275,907	4,056,884	4,070,628 *	9,705,453	615,634
\$ 165,437	\$ 104,231	\$ 5,747,754	\$ 4,119,721	\$ 11,342,574	\$ 665,881

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2006

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	\$ 4,350,000	\$ 967,872
Receipts from interfund services provided	—	—
Payments to suppliers	(5,097,000)	(450,074)
Payments to employees	—	(185,503)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	288,000	(23,746)
Net cash provided by (used in) operating activities	(459,000)	308,549
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Proceeds from bonds	3,392,000	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	(3,064,000)	—
Interest paid on operating debt	(466,000)	—
Transfers in	—	—
Transfers out	—	—
Grants received	—	—
Lottery payments for education	—	—
Net cash provided by (used in) noncapital financing activities	(138,000)	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Acquisition of intangible assets	—	—
Acquisition of capital assets	—	(124,457)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	127,008
Principal paid on notes payable and commercial paper	—	(12,413)
Payment of capital lease obligations	—	—
Retirement of general obligation bonds	—	(47,575)
Proceeds from revenue bonds	—	116,207
Retirement of revenue bonds	—	(152,075)
Interest paid	—	(151,166)
Contributed capital	—	—
Net cash provided by (used in) capital and related financing activities	—	(244,471)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	—
Proceeds from maturity and sale of investments	—	—
Change in interfund receivables and loans receivable	—	1,981
Earnings on investments	128,000	17,099
Net cash provided by (used in) investing activities	128,000	19,080
Net increase (decrease) in cash and pooled investments	(469,000)	83,158
Cash and pooled investments at July 1, 2005	2,839,000 *	383,002
Cash and pooled investments at June 30, 2006	\$ 2,370,000	\$ 466,160

* Restated

Business-type Activities – Enterprise Funds					Governmental
Public Building	State	Unemployment	Nonmajor		Activities
Construction	Lottery	Programs	Enterprise	Total	Internal
					Service Funds
\$ 607,947	\$ 3,522,285	\$ 10,084,551	\$ 633,335	\$ 20,165,990	\$ 2,270,631
—	—	—	13,676	13,676	41,870
(9,373)	(117,812)	(64,950)	(305,216)	(6,044,425)	(1,426,901)
—	(36,582)	(126,918)	(138,165)	(487,168)	(609,797)
—	(8,240)	—	(18,212)	(26,452)	(18,044)
—	(2,394,163)	—	—	(2,394,163)	—
—	(252,539)	(8,415,186)	(63)	(8,667,788)	(8,800)
(307,483)	231,265	(196,512)	(15,721)	(24,197)	(49,166)
291,091	944,214	1,280,985	169,634	2,535,473	199,793
—	—	—	(309)	(309)	(891)
—	—	—	56,050	3,448,050	—
—	—	—	(104,940)	(104,940)	—
—	—	—	(22,185)	(3,086,185)	—
—	—	—	(11,597)	(477,597)	(28)
911,843	—	11,944	14,492	938,279	—
(893,357)	—	—	(46,447)	(939,804)	(465)
—	—	—	55,179	55,179	—
—	(1,244,619)	—	—	(1,244,619)	—
18,486	(1,244,619)	11,944	(59,757)	(1,411,946)	(1,384)
6,394	—	—	—	6,394	—
—	—	—	—	—	(5,257)
(553,373)	(10,753)	(671)	(220,330)	(909,584)	(101,523)
—	3	—	—	3	416
—	—	—	—	127,008	—
—	—	—	—	(12,413)	(1,928)
—	—	—	—	—	(232)
—	—	—	—	(47,575)	—
410,222	—	—	524,738	1,051,167	—
(332,345)	—	—	(146,264)	(630,684)	—
—	—	—	(91,876)	(243,042)	(905)
—	—	—	—	—	3,053
(469,102)	(10,750)	(671)	66,268	(658,726)	(106,376)
—	(398,581)	(973,198)	(4,407)	(1,376,186)	—
—	733,569	—	2,847	736,416	—
—	—	—	(66)	1,915	—
—	16,184	203,969	67,167	432,419	4,610
—	351,172	(769,229)	65,541	(205,436)	4,610
(159,525)	40,017	523,029	241,686	259,365	96,643
529,160	326,645	2,534,182	2,027,366	8,639,355	504,927
\$ 369,635	\$ 366,662	\$ 3,057,211	\$ 2,269,052	\$ 8,898,720	\$ 601,570

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2006

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ —	\$ 166,008
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Interest expense on operating debt	—	—
Depreciation	—	77,980
Accretion of capital appreciation bonds	—	—
Provisions and allowances	—	—
Accrual of deferred charges	—	—
Amortization of discounts	—	—
Amortization of deferred charges	—	113,097
Other	—	—
Change in assets and liabilities:		
Receivables	—	(13,255)
Due from other funds	—	—
Due from other governments	—	(287)
Prepaid items	—	—
Inventories	—	(3,497)
Net investment in direct financing leases	—	—
Recoverable power costs (net)	(429,000)	—
Other current assets	—	(97)
Loans receivable	—	—
Interfund receivable	—	—
Accounts payable	(30,000)	21,527
Due to other funds	—	(43,090)
Due to component units	—	—
Due to other governments	—	8,105
Deposits	—	—
Contracts and notes payable	—	—
Advance collections	—	—
Interest payable	—	—
Other current liabilities	—	(23,746)
Interfund payables	—	—
Deferred revenue	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	5,804
Capital lease obligations	—	—
Other noncurrent liabilities	—	—
Total adjustments	(459,000)	142,541
Net cash provided by (used in) operating activities	\$ (459,000)	\$ 308,549
Noncash capital and related financing and investing activities		
Interest accreted on annuitized prizes	\$ —	\$ —
Unclaimed Lottery prizes directly transferred to Education Fund	—	—
Unrealized loss on investment	—	—

Business-type Activities – Enterprise Funds					Governmental
Public Building	State	Unemployment	Nonmajor	Total	Activities
Construction	Lottery	Programs	Enterprise		Internal
					Service Funds
\$ 50,348	\$ 1,239,212	\$ 1,474,957	\$ (20,276)	\$ 2,910,249	\$ 44,270
—	—	—	—	—	905
—	8,710	589	122,659	209,938	82,018
2,345	—	—	2,846	5,191	—
—	6,832	—	(450)	6,382	—
(11,813)	—	—	29	(11,784)	—
(12,214)	—	—	427	(11,787)	—
10,876	35	—	7,260	131,268	—
—	934	—	67,414	68,348	140
—	(82,958)	(696)	17,516	(79,393)	(65,924)
(29,382)	18,862	(16,728)	(4,700)	(31,948)	17,197
—	(18,348)	23,403	(1,868)	2,900	(78,502)
—	4,361	—	1,193	5,554	(16,616)
—	(805)	—	(147)	(4,449)	(3,482)
281,126	—	—	18,755	299,881	—
—	—	—	—	(429,000)	—
—	(482)	—	(4,971)	(5,550)	16,144
—	—	—	(1,827)	(1,827)	—
—	—	—	130	130	—
(38)	(639)	10	(10,266)	(19,406)	(13,537)
(215)	132	(179,787)	(14,288)	(237,248)	154,295
—	—	—	7,022	7,022	(4,755)
406	—	(1,068)	(8,761)	(1,318)	166
—	—	—	(593)	(593)	(2,890)
—	—	—	2,000	2,000	(857)
(5,552)	52	—	(1,080)	(6,580)	64,543
5,205	—	—	2,898	8,103	—
(1)	—	2,359	(5,037)	(26,425)	(2,838)
—	—	—	(54)	(54)	—
—	—	—	3,736	3,736	—
—	175	(21,668)	(2,576)	(24,069)	—
—	(231,859)	—	—	(231,859)	—
—	—	(386)	(7,191)	(1,773)	2,487
—	—	—	—	—	7,552
—	—	—	(166)	(166)	(523)
240,743	(294,998)	(193,972)	189,910	(374,776)	155,523
\$ 291,091	\$ 944,214	\$ 1,280,985	\$ 169,634	\$ 2,535,473	\$ 199,793
					(concluded)
\$ —	\$ 135,749	\$ —	\$ —	\$ 135,749	\$ —
—	29,490	—	—	29,490	—
—	(171,676)	—	—	(171,676)	—

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

June 30, 2006

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	\$ 45,935	\$ 1,272,914	\$ 16,505,617	\$ 3,769,978
Investments, at fair value:				
Short-term	—	3,980,431	—	—
Equity securities	—	221,799,577	—	—
Debt securities	—	84,551,889	—	—
Real estate	—	27,044,181	—	—
Other	2,098,640	26,874,550	—	—
Securities lending collateral	—	65,637,546	—	—
Total investments	2,098,640	429,888,174	—	—
Receivables (net)	2,495	6,885,450	72,714	640,968
Due from other funds	64,322	416,146	—	7,732,192
Due from other governments	—	—	—	66,911
Prepaid Items	—	—	—	29,877
Interfund receivables.....	1,054,674	—	—	—
Loans receivable	—	—	—	44,600
Other assets	70,895	393,267	—	308
Total assets	3,336,961	438,855,951	16,578,331	\$ 12,284,834
LIABILITIES				
Accounts payable	2,746	4,556,995	35	\$ 4,141,184
Due to other funds	79	132,459	212	—
Due to other governments	—	53,488	186,199	6,626,079
Tax overpayments	—	—	—	6,601
Benefits payable	—	252,653	—	—
Deposits	70,895	—	—	931,323
Advance collections	—	—	—	61,340
Securities lending obligations	—	65,637,546	—	—
Interfund payables.....	—	—	—	35,341
Other liabilities	1,162,537	5,358,745	—	482,966
Total liabilities	1,236,257	75,991,886	186,446	\$ 12,284,834
NET ASSETS				
Held in trust for pension benefits, pool participants, and other purposes	\$ 2,100,704	\$ 362,864,065	\$ 16,391,885	

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2006
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	\$ —	\$ 9,502,650	\$ —
Plan member	—	5,915,274	—
Total contributions	—	15,417,924	—
Investment income:			
Net appreciation in fair value of investments	—	16,697,980	—
Interest, dividends, and other investment income	55,300	26,985,772	639,001
Less: investment expense	—	(4,983,917)	—
Net investment income	55,300	38,699,835	639,001
Receipts from depositors	383,956	—	21,685,379
Other	77,770	14,740	—
Total additions	517,026	54,132,499	22,324,380
DEDUCTIONS			
Distributions paid and payable to participants	—	16,087,540	637,443
Refunds of contributions	—	277,760	—
Administrative expense	9,366	343,247	1,559
Payments to and for depositors	130,351	392,730	23,865,306
Transfers out	105	—	—
Other	—	14,252	—
Total deductions	139,822	17,115,529	24,504,308
Change in net assets	377,204	37,016,970	(2,179,928)
Net assets, July 1, 2005	1,723,500	325,847,095 *	18,571,813
Net assets, June 30, 2006	\$ 2,100,704	\$ 362,864,065	\$ 16,391,885

* Restated

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Discretely Presented Component Units Financial Statements



Statement of Net Assets

Discretely Presented Component Units – Enterprise Activity

June 30, 2006

(amounts in thousands)

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
ASSETS						
Current assets:						
Cash and pooled investments	\$ 328,050	\$ 281,390	\$ 765,172	\$ 508,838	\$ 618,153	\$ 2,501,603
Investments	6,836,330	3,816,760	1,950,267	68,995	278,071	12,950,423
Restricted assets:						
Cash and pooled investments	—	—	—	—	11,902	11,902
Investments	—	—	—	—	52,943	52,943
Receivables (net)	1,591,603	1,504,918	396,119	1,779	308,849	3,803,268
Due from primary government	162,585	—	—	5,794	1,123	169,502
Due from other governments	448,298	—	—	130,290	72,479	651,067
Prepaid items	—	2,588	639	—	3,856	7,083
Inventories	129,210	—	—	—	293	129,503
Other current assets	127,227	250	104	—	50,228	177,809
Total current assets	9,623,303	5,605,906	3,112,301	715,696	1,397,897	20,455,103
Noncurrent assets:						
Restricted assets:						
Cash and pooled investments	—	—	—	—	115,502	115,502
Investments	—	—	—	—	87,508	87,508
Investments	14,267,344	16,154,930	41,391	1,821,602	931,017	33,216,284
Receivables (net)	677,866	—	—	—	203,961	881,827
Loans receivable	—	—	5,954,047	—	263,109	6,217,156
Deferred charges	—	25,159	31,398	—	1,716	58,273
Capital assets:						
Land	549,225	25,673	—	—	92,006	666,904
Collections – nondepreciable	254,550	—	—	—	3,828	258,378
Buildings and other depreciable property	23,663,203	419,031	1,522	—	1,506,610	25,590,366
Less: accumulated depreciation	(10,978,410)	(181,480)	(628)	—	(590,928)	(11,751,446)
Construction in progress	3,176,433	—	—	—	58,413	3,234,846
Other noncurrent assets	246,473	1,217,383	12,570	—	87,066	1,563,492
Total noncurrent assets	31,856,684	17,660,696	6,040,300	1,821,602	2,759,808	60,139,090
Total assets	\$ 41,479,987	\$ 23,266,602	\$ 9,152,601	\$ 2,537,298	\$ 4,157,705	\$ 80,594,193

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1,466,890	\$ 55,801	\$ 65,045	\$ 270,773	\$ 100,887	\$ 1,959,396
Due to other governments	—	—	724	—	694	1,418
Deposits	323,815	—	163,786	—	1,457	489,058
Dividends payable	—	3,100	—	—	—	3,100
Deferred revenue	680,273	—	—	—	57,465	737,738
Contracts and notes payable	—	—	—	—	10,419	10,419
Advance collections	—	228,264	—	—	873	229,137
Interest payable	—	—	125,216	—	1,640	126,856
Benefits payable	—	3,662,040	—	—	—	3,662,040
Securities lending obligations	3,736,260	1,282,378	—	—	—	5,018,638
Current portion of long-term obligations	1,164,573	—	857,577	231,406	147,629	2,401,185
Other current liabilities	1,000,445	133,595	686	35,578	187,703	1,358,007
Total current liabilities	8,372,256	5,365,178	1,213,034	537,757	508,767	15,996,992
Noncurrent liabilities:						
Benefits payable	—	13,922,171	—	2,434,715	—	16,356,886
Compensated absences payable	209,398	57,740	—	—	9,777	276,915
Loans payable	—	—	—	—	9,078	9,078
Certificates of participation, commercial paper, and other borrowings	145,303	—	—	—	8,114	153,417
Capital lease obligations	1,901,274	—	—	—	208,910	2,110,184
Revenue bonds payable	5,871,783	—	6,588,622	—	548,854	13,009,259
Other noncurrent liabilities	905,081	378,004	82,738	—	303,021	1,668,844
Total noncurrent liabilities	9,032,839	14,357,915	6,671,360	2,434,715	1,087,754	33,584,583
Total liabilities	17,405,095	19,723,093	7,884,394	2,972,472	1,596,521	49,581,575
NET ASSETS						
Investment in capital assets, net of related debt	8,535,316	263,224	894	—	404,522	9,203,956
Restricted:						
Nonexpendable	2,399,592	—	—	—	580,703	2,980,295
Expendable:						
Endowments and gifts	6,374,078	—	—	—	7,245	6,381,323
Education	813,717	—	—	—	624,459	1,438,176
Indenture	—	—	703,539	—	—	703,539
Employee benefits	—	—	—	336,324	—	336,324
Workers' compensation liability	—	3,280,285	—	—	—	3,280,285
Statute	—	—	563,774	—	241,860	805,634
Other purposes	—	—	—	—	270,025	270,025
Total expendable	7,187,795	3,280,285	1,267,313	336,324	1,143,589	13,215,306
Unrestricted	5,952,189	—	—	(771,498)	432,370	5,613,061
Total net assets	24,074,892	3,543,509	1,268,207	(435,174)	2,561,184	31,012,618
Total liabilities and net assets	\$ 41,479,987	\$ 23,266,602	\$ 9,152,601	\$ 2,537,298	\$ 4,157,705	\$ 80,594,193

The notes to the financial statements are an integral part of this statement.

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2006

(amounts in thousands)

	University of California	State Compensation Insurance Fund	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
OPERATING EXPENSES						
Personal services	9,488,014	710,648	20,016	—	508,860	10,727,538
Scholarships and fellowships	357,965	—	—	—	34,103	392,068
Supplies	1,826,954	—	—	—	6,014	1,832,968
Services and charges	349,788	63,600	63,851	3,164,569	1,136,311	4,778,119
Department of Energy laboratories	4,197,685	—	—	—	—	4,197,685
Depreciation	997,023	18,349	216	—	72,789	1,088,377
Distributions to beneficiaries	—	4,530,384	—	—	—	4,530,384
Interest expense and fiscal charges ..	347,172	—	344,711	—	36,025	727,908
Amortization of deferred charges	—	551,760	10,005	—	74	561,839
Grants provided	416,248	—	73,987	—	51,000	541,235
Other	2,312,389	148,615	—	—	77,793	2,538,797
Total operating expenses	20,293,238	6,023,356	512,786	3,164,569	1,922,969	31,916,918
PROGRAM REVENUES						
Charges for services	12,116,518	5,946,401	10,970	3,102,717	1,088,497	22,265,103
Operating grants and contributions ...	7,067,721	—	115,745	—	523,518	7,706,984
Capital grants and contributions	166,502	—	—	—	8,309	174,811
Total program revenues	19,350,741	5,946,401	126,715	3,102,717	1,620,324	30,146,898
Net (expense) revenue	(942,497)	(76,955)	(386,071)	(61,852)	(302,645)	(1,770,020)
GENERAL REVENUES						
Investment and interest income	1,065,284	403,530	449,312	144,920	132,165	2,195,211
Other	1,724,546	111,926	15,566	382	295,346	2,147,766
Total general revenues	2,789,830	515,456	464,878	145,302	427,511	4,342,977
Change in net assets	1,847,333	438,501	78,807	83,450	124,866	2,572,957
Net assets, July 1, 2005	22,227,559	3,105,008	1,189,400	(518,624)	2,436,318 *	28,439,661
Net assets, June 30, 2006	\$ 24,074,892	\$ 3,543,509	\$ 1,268,207	\$ (435,174)	\$ 2,561,184	\$ 31,012,618

* Restated

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2006:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*;

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*;

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*; and

GASB Statement No. 47, *Accounting for Termination Benefits*.

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State but for which the State is financially accountable or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a component unit in the State's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise-of-powers agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, capital lease arrangements between the building authorities and the State in the amount of \$606 million have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information on how to obtain copies of the financial statements of the building authorities, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. GSTSC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. GSTSC is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information on how to obtain copies of the financial statements of GSTSC, contact the Department of Finance, Capital Outlay/Resources Section, 915 L Street, 9th Floor, Sacramento, California 94814.

The *California State University, Channel Islands Site Authority (Site Authority)* was formed in 1998 to convert the property previously known as the Camarillo State Hospital from its former use to a California State University campus and other compatible uses. The Site Authority is governed by a board of seven members comprised of four representatives of the Trustees of the California State University and three representatives from Ventura County. The *California State University, Channel Islands Financing Authority (Financing Authority)* was formed in 2000 to provide financing through revenue bonds for the construction and other improvements conducted by the Site Authority. The Site Authority and the Financing Authority are included in the California State University Programs special revenue fund in the combining statements in the Nonmajor Governmental Funds section. The loan and other transactions of \$198 million between the two authorities have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information on how to obtain copies of the financial statements of the Site Authority and the Financing Authority, contact the California State University, Channel Islands, One University Drive, Camarillo, California 93012.

2. Fiduciary Component Units

The State has two fiduciary component units that administer pension and other employee benefit trust funds. These entities are legally separate from the State and meet the definition of a component unit because they are fiscally dependent on the State; however, due to their fiduciary nature, they are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension and health benefit plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plans. CalPERS administers the following seven pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the Volunteer Firefighters' Length of Service Award Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, and the Supplemental Contributions Program Fund. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. CalSTRS administers two pension and other employee benefit trust funds: the State Teachers' Retirement Fund and the Teachers' Health Benefits Fund. Copies of CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and mostly provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units.

The *University of California* was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California. The University of California is a component unit of the State because the State appoints a voting majority of the regents and because expenditures for the support of various university programs and capital outlay are appropriated by the annual Budget Act. The University of California offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS). The UCRS is a discretely presented fiduciary component unit of the university; and as such, the financial information of the UCRS is not included in the financial statements of this report. Copies of the University of California's and the UCRS' separately issued financial statements may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607.

The *State Compensation Insurance Fund (SCIF)* is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, counties, cities, school districts, and other public corporations. It is a component unit of the State because the State appoints all five voting members of SCIF's governing board and has the authority to approve or modify SCIF's budget. Copies of SCIF's financial statements for the year ended December 31, 2005, may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is to meet the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and has the authority to approve or modify its budget. Copies of CalHFA's financial statements may be obtained from the California Housing Finance Agency, P.O. Box 4034, Sacramento, California 95812.

The *Public Employees' Benefits Fund*, which is administered by the California Public Employees' Retirement System and accounts for contributions and premiums for public employee long-term care plans and for administration of a deferred compensation program. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229.

State legislation created various *nonmajor component units* to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. The California Pollution Control Financing Authority, the San Joaquin River Conservancy, and the district agricultural associations are considered component units because they have a fiscal dependency on the primary government. The California Educational Facilities Authority is considered a component unit because its exclusion from the statements would be misleading because of its relationship to the primary government. California State University auxiliary organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The

remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, because the primary government can impose its will on the entity, or because the entity provides a specific financial benefit to the primary government. For information on how to obtain copies of the financial statements of these component units, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250.

The nonmajor component units are:

The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;

The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements;

The *California Pollution Control Financing Authority*, which provides financing for pollution control facilities;

The *California Health Facilities Financing Authority*, which provides financing for the construction, equipping, and acquisition of health facilities;

The *California Educational Facilities Authority*, which issues revenue bonds to finance loans for students attending public and private colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities (the EdFund financial report included in this entity is as of and for the year ended September 30, 2005);

California State University auxiliary organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations;

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the state (the district agricultural association's financial report is as of and for the year ended December 31, 2005);

The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, that provides private sources of funds for academic programs, scholarships, and faculty research;

The *San Joaquin River Conservancy*, which was created to acquire and manage public lands within the San Joaquin River Parkway;

The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects; and

The *California Consumer Power and Conservation Financing Authority*, which provides financing for projects to increase power supplies, reduce demand for energy, and improve the efficiency and environmental performance of power plants.

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture with the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members: two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2006, CADA had total assets of \$27.0 million, total liabilities of \$19.0 million, and total net assets of \$8.2 million. Total revenues for the fiscal year were \$8.5 million and expenses were \$8.2 million, resulting in a net income of \$291,038. Because the primary government does not have an equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814.

5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which it is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator*, a state-chartered, nonprofit market institution. The Independent System Operator provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. A five-member oversight board, comprised of three appointees of the Governor, an appointee of the Senate Committee on Rules, and an appointee of the Speaker of the Assembly, oversees the Independent System Operator and appoints a separate governing board that is broadly representative of the state's electricity users and providers. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the Independent System Operator, the financial information of this institution is not included in the financial statements of this report. For information on how to obtain copies of the financial statements of the Independent System Operator, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, CA 94250.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers basic earthquake insurance for California homeowners, renters, condominium owners, and mobile home owners. A three-member board of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information on how to obtain copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, CA 95814.

The *Bay Area Toll Authority (BATA)*, which is not part of the State's reporting entity, was created by the California Legislature in 1997 to administer the base \$2 toll on toll revenues collected from the San Francisco Bay Area's seven state-owned toll bridges and to have program oversight related to certain bridge construction projects. In 2005, the California State Legislature transferred toll-bridge administration responsibility from the California Department of Transportation (Caltrans) to BATA. This responsibility includes consolidation of all the toll-bridge revenue, including the one-dollar per vehicle seismic surcharge for the seven bridges, under BATA's administration. The State's seismic dollar was formerly administered by Caltrans to be used to complete the Toll Bridges Seismic Retrofit Program. The State issued Bay Area Toll Bridges Seismic Retrofit Revenue Bonds that were backed by the revenue generated by the seismic dollar. In April 2006, BATA issued bonds to defease the State's bonds as further described in Note 16, Revenue Bonds. BATA is a blended component unit of the Metropolitan Transportation Commission. Additional information may be obtained from the Metropolitan Transportation Commission, 101 Eighth Street, Oakland, California 94607.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Assets and the Statement of Activities) give information on all the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Assets reports all of the financial and capital resources of the government as a whole in a format where assets equal liabilities plus net assets. The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used primarily to account for services provided to the general public without direct charge.

The State reports the following major governmental funds.

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government.

The *Transportation Construction Fund* accounts for gasoline taxes, bond proceeds, and other revenues that are used for highway and passenger rail construction.

Proprietary fund types focus on the determination of operating income, changes in net assets, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For its proprietary funds, the State applies all applicable GASB pronouncements. In addition, the State applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Committee on Accounting Procedure (CAP) Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The State has elected not to apply FASB pronouncements issued after November 30, 1989, for its enterprise funds.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

1. The activity's debt is secured solely by fees and charges of the activity;
2. There is a legal requirement to recover costs; or
3. The pricing policies of fees and charges are designed to recover costs.

The State reports the following *major enterprise funds*.

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *Public Building Construction Fund* accounts for rental charges from the lease of public assets.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include: architectural services, construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, administrative services related to water delivery, and equipment used by the California Department of Transportation. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types.

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the Statement of Cash Flows, all cash and pooled investments in the State Treasurer's pooled investment program are considered to be cash and cash equivalents.

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an

asset on the Statement of Net Assets. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

E. Deposits and Investments

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency, the University of California, or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments.

G. Deferred Charges

The deferred charges account primarily represents operating and maintenance costs and unrecovered capital costs in the enterprise fund type that will be recognized as expenses over the remaining life of long-term state water supply contracts in the Water Resources Fund. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts. The deferred charges for the Public Buildings Construction Fund include bond counsel fees, trustee fees, rating agency fees, underwriting costs, insurance costs, and miscellaneous expenses. Bond issuance costs are amortized using the straight-line method over the term of the bonds. Amortization of bond issue costs during the facility construction period is capitalized and included in the construction costs. Deferred charges are also included in the State Lottery Fund and nonmajor enterprise funds. Bond discounts and issuance costs recorded as expenditures in certain capital projects and special revenue funds are reclassified as deferred charges in the governmental activities column of the Statement of Net Assets.

H. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. The value of the capital assets, including the related accumulated depreciation, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Assets.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the

collections are: held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit acquisition cost of at least \$5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable property are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years and equipment is depreciated over five years. Depreciable assets of business-type activities are depreciated using the straight-line method over their estimated useful or service lives, ranging from three to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system consists of approximately 49,560 lane-miles and 12,120 bridges that are maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials (AASHTO) and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated over their estimated useful service lives.

I. Long-term Obligations

Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension and other employee benefit trust funds, the liability for employees' compensated absences and workers' compensation claims, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, for business-type activities and component units are generally deferred and amortized over the life of the bonds. In these instances, bonds payable are reported net of the applicable premium or discount, and bond issuance costs are reported as deferred charges. Bond premiums and discounts, as well as issuance costs, for governmental activities are expensed in the year incurred in the fund financial statements. These costs are reported as deferred charges in the government-wide financial statements.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation Construction, California State University Programs, and the Golden State Tobacco Securitization Corporation) and the building authorities' capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation and annual leave. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the fund financial statements for governmental funds, only the compensated absences for employees that have left state service and have unused reimbursable leave at year-end would be included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

K. Net Assets and Fund Balance

The difference between fund assets and liabilities is called "net assets" on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called "fund balance" on the governmental fund statements. The government-wide financial statements have the following categories of net assets.

Investment in capital assets, net of related debt, represents capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result from transactions with purpose restrictions and are designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted net assets* are subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted net assets* are subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2006, the government-wide financial statements show restricted net assets for the primary government of \$17.2 billion, of which \$9.1 billion is due to enabling legislation.

Unrestricted net assets are neither restricted nor invested in capital assets, net of related debt.

In the fund financial statements, proprietary funds have categories of net assets similar to those in the government-wide statements. Governmental funds have two fund balance sections: *reserved and unreserved*. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are segregated for specific uses. The reserves of the fund balance for governmental funds are as follows.

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the fiscal year.

Reserved for interfund receivables represents the noncurrent portion of advances to other funds that do not represent expendable available financial resources.

Reserved for loans receivable represents the noncurrent portion of loans receivable that does not represent expendable available financial resources.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered in the report. These appropriations are legally segregated for a specific future use.

Reserved for debt service represents the amount legally reserved for the payment of bonded indebtedness that is not available for other purposes until the bonded indebtedness is liquidated.

The *unreserved* amounts represent the net of total fund balance, less reserves.

Fiduciary fund net assets are “amounts held in trust for benefits and other purposes.”

L. Restatement of Beginning Fund Balances and Net Assets

1. Fund Financial Statements

The beginning fund balance of the **governmental funds** decreased by a net total of \$3 million. This decrease is comprised of an increase of \$18 million in the Transportation Construction Fund—a result of prior-period adjustments to correct errors—and a decrease of \$21 million in the **nonmajor governmental funds** as a result of prior-period adjustments to correct errors and the reclassification of funds.

The beginning fund balance of the **nonmajor enterprise funds** increased by a net total of \$67 million as a result of prior-period adjustments to correct errors and the reclassification of funds.

The beginning net assets of the **fiduciary funds** decreased by a total of \$53.2 billion as a result of previously including the University of California Retirement System as a fiduciary activity of the State, when in fact it is a fiduciary activity of the University of California, a discretely presented component unit of the State.

Beginning net assets of the **discretely presented component units – enterprise activity** increased by a total of \$28 million. Most of this increase was the result of reporting the EDFUND as an additional nonmajor discretely presented component unit. The remaining increase is a result of prior-period adjustments to correct errors.

2. Government-wide Financial Statements

The beginning net assets of the **governmental activities**, the **business-type activities**, and the **component units** were restated as described in the previous section for governmental funds, nonmajor enterprise funds, and discretely presented component units – enterprise activity, respectively.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State’s deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor.

Amendments to the original budget for the year ended June 30, 2006, were legally made, and they had the effect of increasing spending authority for the year.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. Certain items that are established at the category, program, component, or element level can be adjusted by the Department of Finance. For example, an appropriation for support may have detail accounts for personal services, operating expenses and equipment, and reimbursements. The Department of Finance can authorize adjustments between the detail accounts but cannot increase the amount of the overall support appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control, or the extent to which management may amend the budget without seeking approval of the governing body, has been established in the Budget Act for the annual operating budget.

NOTE 3: DEPOSITS AND INVESTMENTS

The State reports its investments at fair value. State statutes authorize investments in certain types of securities. The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner, as described below. In addition, certain funds have the authority to separately invest their cash.

As required by generally accepted accounting principles, certain risk disclosures are included in this note to the extent that the risks exist at the date of the statement of net assets. Disclosure of the following risks are included:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

A. Primary Government

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, Federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

The State Treasurer's Office administers a pooled investment program for the primary government and for certain discretely presented component units. As of June 30, 2006, the discretely presented component units accounted for approximately 3.0% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and that earn income which compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2006, totaling approximately \$8.1 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2006, the State Treasurer's Office had amounts on deposit with a fiscal agent totaling \$29 million related to principal and interest payments to bondholders. Additionally, \$4 million was in a compensating balance account with a custodial agent that was designed to provide sufficient earnings to cover fees for custodial services. These deposits are insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. As of June 30, 2006, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 119 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

The Pooled Money Investment Board provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design an effective cash management and investment program, using all moneys flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The Pooled Money Investment Board is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2006, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

Certain funds have elected to participate in the pooled investment program, even though they have the authority to make their own investments. Others may be required by legislation to participate in the program. As a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are to be assigned to the State's General Fund. Some of the \$450 million in interest revenue received by the General Fund from the pooled investment program in the 2005-06 fiscal year was earned on balances in these funds.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements.

The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2006, structured notes and asset-backed securities comprised slightly more than 2.5% of the pooled investments. A significant portion of the asset-backed securities consists of small-business loans and mortgage-backed securities. The small-business loans held in the portfolio are guaranteed by the Small Business Administration, an agency of the federal government. The mortgage-backed securities, which are called real estate mortgage investment conduits (REMICs), are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate notes. For floating-rate notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

Table 1 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office investment policy for the pooled investment program.

Table 1**Authorized Investments**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury Securities	5 years*	N/A**	N/A**	N/A**
Federal Agency Securities	5 years*	N/A**	N/A**	N/A**
Certificates of Deposit	5 years*	N/A**	N/A**	N/A**
Bankers Acceptances	180 days*	N/A**	N/A**	N/A**
Commercial Paper	180 days	30%	10% of issuer's outstanding Commercial Paper	A-2/P-2/F-2***
Corporate Bonds/Notes	5 years*	N/A**	N/A**	A/A/A****
Repurchase Agreements	1 year*	N/A**	N/A**	N/A**
Reverse Repurchase Agreements	1 year*	10%*	N/A**	N/A**

* Limitations are pursuant to the State Treasurer's Office Investment Policy for the Pooled Money Investment Account. The Government Code does not establish limits for investments of surplus moneys in this investment type.

** N/A = Neither the Government Code nor the State Treasurer's Office Investment Policy for the Pooled Money Investment Account sets limits for the investment of surplus moneys in this investment type.

*** The State Treasurer's Office Investment Policy for the Pooled Money Investment account is more restrictive than the Government Code, which allows investments rated A-3/P-3/F-3.

**** The Government Code requires that a security fall within the top three ratings of a nationally recognized rating service.

1. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments.

Table 2**Schedule of Investments – Primary Government – Interest Rate Risk**

June 30, 2006

(amounts in thousands)

	<u>Interest Rates*</u>	<u>Maturity</u>	<u>Fair Value at Year End</u>	<u>Weighted Average Maturity (in years)</u>
Pooled investments				
U.S. Treasury bills and notes	2.65 - 5.26	27 days - 1.92 years	\$ 3,263,578	0.65
U.S. agency bonds and discount notes	1.75 - 5.38	21 days - 1.21 years	16,969,636	0.42
Small Business Administration loans	5.05 - 5.88	.25 year	720,458	0.25 **
Mortgage-backed securities #	3.92 - 14.25	32 days - 9.13 years	638,355	2.84
Certificates of deposit	4.73 - 5.53	3 days - 180 days	13,634,447	0.20
Commercial paper	4.77 - 5.42	3 days - 151 days	11,841,253	0.10
Corporate bonds and notes	1.91 - 5.56	5 days - 2.33 years	2,035,956	0.37 ***
Total pooled investments			49,103,683 @	
Other primary government investments				
U.S. Treasuries and agencies			2,243,357	4.75 ****
Commercial paper			517,353	N/A *****
Guaranteed investment contracts			697,578	15.82
Corporate debt securities			246,059	1.74
Other			597,506	1.09
Total other primary government investments			4,301,853	
Funds outside primary government included in pooled investments				
Less: investment trust funds			16,505,617	
Less: other trust and agency funds			1,920,707	
Less: discretely presented component units			1,900,780	
Total primary government investments			\$ 33,078,432	

* These numbers represent high and low interest rates for each investment type.

** In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes stated maturity is the quarterly reset date.

*** For corporate bond floating rate securities, the State Treasurer's Office assumes final maturity date in calculating weighted average maturity.

**** \$33 million of U.S. Treasuries and agencies securities mature in less than one year.

***** These commercial paper holdings of the California State University and the Golden State Tobacco Securitization Corporation mature in less than one year.

These securities are issued by U. S. government agencies such as the Federal National Mortgage Association.

@ Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include \$7.9 billion of time deposits and \$6.4 billion of loans to State funds, which are reported as cash in the respective funds.

Table 3 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously).

Table 3**Schedule of Highly Sensitive Investments in Debt Securities – Primary Government – Interest Rate Risk**

June 30, 2006

(amounts in thousands)

Pooled investments	Fair Value at Year End	% of Total Pooled Investments
Mortgage-backed		
Federal National Mortgage Association Collateralized Mortgage Obligations	\$ 636,914	1.297 %
Government National Mortgage Association Pools	266	0.001
Federal Home Loan Mortgage Corporation Participation Certificate Pools	1,175	0.002

These mortgage-backed securities entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

2. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities.

Table 4**Schedule of Investments in Debt Securities – Primary Government – Credit Risk**

June 30, 2006

(amounts in thousands)

<u>Credit Rating as of Year End</u>		<u>Fair Value</u>
<u>Short-term</u>	<u>Long-term</u>	
Pooled investments*		
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$ 37,918,361 **
A-1/P-1/F-1	AA/Aa/AA	4,970,095
A-2/P-2/F-2	A/A/A	1,503,745
—	BB***	89,090
Not rated		638,090
Not applicable		3,984,302
Total pooled investments		\$ 49,103,683 ****
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$ 1,016,708
A-1/P-1/F-1	AA/Aa/AA	362,835
A-2/P-2/F-2	A/A/A	234,900
Not rated		603,600
Not applicable		2,083,810
Total other primary government investments		\$ 4,301,853

* The State Treasurer's Office utilizes Standard & Poor's, Moody's, and Fitch ratings services. Securities are classified by the lowest rating of the three agencies.

** This amount includes \$10.9 billion in Freddie Mac issued discount notes. Freddie Mac has not requested that all of its debt be rated, but all debt that has been rated received S&P's and Moody's top ratings.

*** This holding represents multiple maturities of one issuer, General Motors Acceptance Corporation. These securities were within the top three ratings of a nationally recognized rating service when purchased.

**** Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include time deposits of \$7.9 billion, for which credit risk is mitigated by collateral that the State holds for them, as discussed earlier in this note, and loans to State funds of \$6.4 billion, for which external credit risk is not applicable because they are internal loans.

3. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. Table 5 identifies debt securities in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the State Treasurer's investments, or of the separate investments of other primary government funds.

Table 5

Schedule of Investments – Primary Government – Concentration of Credit Risk

June 30, 2006

(amounts in thousands)

POOLED INVESTMENTS

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>% of Total Pooled Investments</u>
Federal Home Loan Mortgage Corp.	U.S. agency securities	\$ 10,865,395	22.13 %
Federal Home Loan Bank	U.S. agency securities	5,959,446	12.14
General Electric Capital/GE Company	Corporate Bonds/Commercial Paper	2,679,434	5.46

OTHER PRIMARY GOVERNMENT INVESTMENTS

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>% of Total Agency Investments</u>
Golden State Tobacco Securitization Corporation			
Coral	Commercial paper	\$ 58,367	11.59 %
Brianwood	Commercial paper	63,554	12.62
Morgan Stanley	Commercial paper	139,344	27.67
Security Benefit Life Insurance	Commercial paper	65,014	12.91
Curzon	Commercial paper	64,661	12.84
Greyhawk	Commercial paper	75,438	14.98
Department of Veterans Affairs			
Bayerische Landesbank	Guaranteed investment contracts	\$ 46,053	30.45 %
Societe Generale	Guaranteed investment contracts	40,003	26.45
Westdeutsche Landesbank	Guaranteed investment contracts	58,861	38.92

4. Custodial Credit Risk

The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2006, \$23 million in deposits of the Electric Power Fund and \$10 million in deposits of the Water Resources Development System were held in uninsured and uncollateralized accounts with U.S. Bank.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 98% of these separately invested funds.

CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments.

CalPERS reports investments in securities at fair value, generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount.

CalPERS' mortgages are valued on the basis of their future principal and interest payments, discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or, when market value is not available, at cost plus accrued interest, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, determines the fair values for the individual investments.

Under the State Constitution and statutory provisions governing CalPERS' investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. CalPERS held for investment purposes futures and options with a fair value of approximately negative \$248 million as of June 30, 2006. Gains and losses on futures and options are determined based upon quoted market values and recorded in the statement of changes in fiduciary net assets.

Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that investment securities values will change in the near term; such changes could materially affect the amounts reported in the financial statements.

CalPERS uses forward foreign currency exchange contracts primarily to hedge against changes in exchange rates related to foreign securities. As of June 30, 2006, CalPERS had an approximately negative \$248 million net exposure to loss from forward foreign currency exchange transactions related to the approximately \$51.0 billion international debt and equity portfolios. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

CalSTRS also reports investments at fair value, generally based on published market prices and quotations from major investment firms for securities. In the case of debt securities acquired through private placements, management computes fair value based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values are based on either

recent estimates provided by CalSTRS' contract real estate advisors or by independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates fair value. Alternative investments represent interests in private equity partnerships that CalSTRS enters into under a limited partnership agreement. For alternative investments and other investments for which no readily ascertainable market value exists, CalSTRS management, in consultation with its investment advisors, has determined the fair value for the individual investments. Purchases and sales are recorded on the trade date.

The State Constitution, state statutes, and board policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third-party securities lending agents are under contract to lend domestic and international equity and debt securities. For both CalPERS and CalSTRS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. CalPERS' management believes that CalPERS has minimized its credit risk exposure by requiring the borrowers to provide collateral greater than 100% of the market value of the securities loaned. The securities loaned are priced daily. Securities on loan can be recalled on demand by CalPERS and loans of securities may be terminated by CalPERS or the borrower.

For CalPERS, the weighted average maturities of the collateral invested by two externally managed portfolios and one internally managed portfolio were 413 days, 108 days, and 497 days. In accordance with CalPERS' investment guidelines, the cash collateral was invested in short-term investment funds that, at June 30, 2006, had durations of 43 days, 11 days, and 32 days, for two externally managed portfolios and one internally managed portfolio.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2006, had a 22-day difference in weighted average maturity between the investments and loans. Most of CalSTRS' security loans can be terminated on demand by CalSTRS or the borrower. As of June 30, 2006, CalSTRS has no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. CalSTRS is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Table 6 presents the investments of the fiduciary funds by investment type.

Table 6

Schedule of Investments - Fiduciary Funds

June 30, 2006

(amounts in thousands)

Investment Type	Fair Value
Equity securities	\$ 221,799,577
Debt securities*	88,532,320
Investment contracts	724,980
Mutual funds	6,138,831
Real estate	27,044,181
Insurance contracts	400,742
Private equity	20,654,660
Securities lending collateral	65,637,546
Other.....	1,053,977
Total investments	\$ 431,986,814

* Debt securities include short-term investments not included in Cash and Pooled Investments.

1. Interest Rate Risk

CalPERS and CalSTRS manage the interest rate risk inherent in their investment portfolios by measuring the effective or option-adjusted duration of the portfolio. In using the duration method, these agencies may make assumptions regarding the timing of cash flows or other factors that affect interest rate risk information. The CalPERS investment policies require the option-adjusted duration of the total fixed-income portfolio to stay within 20% of the option adjusted duration of its benchmark (Lehman Brothers Long Liabilities). All individual portfolios are required to maintain a specific level of risk relative to their benchmark. Risk exposures are monitored daily. The CalSTRS investment guidelines allow the internally managed long-term investment grade portfolios the discretion to deviate within plus or minus .50 years from the effective duration of the relevant Lehman Brothers benchmark. The permissible range of deviation for the effective duration within the high yield portfolios is negotiated with each of the high yield managers and detailed in the investment guidelines. The CalSTRS investment guidelines state that 50% of the portfolio shall reflect an expected-maturity, first-call date or first-reset date to fall within a 0-30 day range and/or be invested in U.S. government and agency obligations.

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Table 7 presents the interest rate risk of the fixed-income securities of these fiduciary funds.

Table 7**Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk**

June 30, 2006

(amounts in thousands)

	<u>Fair Value at Year End</u>	<u>Effective Duration**</u>	
California Public Employees' Retirement Fund *			
U.S. Treasuries and agencies	\$ 13,612,123	9.25	
Mortgages	17,213,403	4.69	
Corporate	14,478,104	8.52	
Asset-backed	1,424,437	3.43	
International	5,634,777	6.61	
Not rated ***	702,405	N/A	
Total	<u>\$ 53,065,249</u>		
Deferred Compensation Plan Fund			
Investment contracts	\$ 724,980	5.34	
Scholarshare Program Trust Fund			
Insurance contracts	\$ 400,742	3.10	
California State Teachers' Retirement System			
Long-term fixed-income investments			
U.S. Government and agency obligations	\$ 8,414,312	4.51	
Corporate	7,950,240	5.61	
High yield	1,451,592	3.89	
Asset-backed securities	835,240	2.69	
Commercial mortgage-backed securities	1,707,614	4.59	
Mortgage-backed securities	11,405,515	4.61	
Total	<u>\$ 31,764,513</u>		
Short-term fixed-income investments			
Money market securities	\$ 340,782	\$ 209,117	\$ —
Corporate bonds	—	—	—
Corporate floating-rate notes	48,609	113,079	7,001
U.S. Government and agency obligations			
Noncallables	35,000	—	—
Discount notes	309,536	218,167	—
Callable	63,000	55,997	39,000
U.S. Treasury	—	—	—
Asset-backed securities	12,810	15,600	—
Total	<u>\$ 809,737</u>	<u>\$ 611,960</u>	<u>\$ 46,001</u>

* Includes investments of fiduciary funds and certain discretely presented component units that CalPERS administers.

** Effective duration is described in the paragraph preceding this table.

*** Securities held in externally managed investment pools or in default.

<u>121-180</u> <u>days</u>	<u>181-365</u> <u>days</u>	<u>365+</u> <u>days</u>	<u>Fair Value at</u> <u>Year End</u>
\$ —	\$ —	\$ —	\$ 549,899
—	—	14,984	14,984
—	—	—	168,689
29,937	25,000	—	89,937
—	—	—	527,703
5,000	—	—	162,997
—	112,084	—	112,084
—	—	—	28,410
<u>\$ 34,937</u>	<u>\$ 137,084</u>	<u>\$ 14,984</u>	<u>\$ 1,654,703</u>

2. Credit Risk

The CalPERS investment policies require that 90% of the total fixed-income portfolio be invested in investment-grade securities. Investment-grade securities are those fixed-income securities with a Moody's rating of AAA to BAA or a Standard and Poor's rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily. The CalSTRS investment guidelines require that the lowest long-term credit rating of securities eligible for purchase by the internally managed fixed-income assets be Baa3 by Moody's Investor Services or BBB- by Standard and Poor's Corporation (i.e., investment grade by at least one major rating agency). Furthermore, the total position of the outstanding debt of any one issuer shall be limited to 10% of the market value of the portfolio. The investment guidelines also include an allocation to high yield assets that are managed externally and allow for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer a manager may hold are negotiated on a manager-by-manager basis.

Table 8 presents the credit risk of the fixed-income securities of these fiduciary funds.

Table 8

Schedule of Investments in Fixed-Income Securities – Fiduciary Funds – Credit Risk

June 30, 2006

(amounts in thousands)

Credit Rating as of Year End		Fair Value	
Short-term	Long-term		
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$	56,339,186
A-1/P-1/F-1	AA/Aa/AA		19,036,655
A-2/P-2/F-2	A/A/A		12,870,052
A-3/P-3/F-3	BBB/Baa/BBB		10,989,877
B/NP/B	BB/Ba/BB		1,672,477
B/NP/B	B/B/B		2,699,901
C/NP/C	CCC/Caa/CCC		125,188
C/NP/C	CC/Ca/CC		65,231
Not rated			2,267,273
Total fixed-income securities		\$	106,065,840

3. Concentration of Credit Risk

The Deferred Compensation Plan Fund held \$725 million in investment contracts of Dwight Asset Management Company, which represented 11.9% of the fund's total investments as of June 30, 2006. The Scholarshare Program Trust Fund held \$401 million in insurance contracts of TIAA-CREF Life Insurance Company, which represented 19.1% of the fund's total investments as of June 20, 2006.

CalPERS and CalSTRS did not have investments in a single issuer that represented 5% or more of total fair value of all investments.

4. Custodial Credit Risk

CalPERS and CalSTRS have policies or practices to minimize custodial risk, and their investments at June 30, 2006, were not exposed to custodial risk.

5. Foreign Currency Risk

At June 30, 2006, CalPERS and CalSTRS held \$52.0 billion and \$30.8 billion, respectively, in investments subject to foreign currency risk. CalPERS' asset allocation and investment policies allow for active and passive investments in international securities. CalPERS' target allocation is to have 33% of total global equity assets invested in international equities and 11.5% of total fixed-income invested in international securities. Real estate and alternative investments do not have a target allocation for international investment. CalPERS uses a currency overlay program to reduce risk by hedging approximately 25% of the total international equity portfolio. Its currency exposures are monitored daily. CalSTRS believes that its currency-management program should emphasize protection of the value of its non-dollar public and private (i.e. international debt and equity, alternative investments, and real estate) equity assets against a strengthening U.S. dollar. The active non-dollar equity managers are permitted to hedge their assets, and do so in the process of implementing their investment strategies. CalSTRS' fixed-income staff develops and implements its currency-hedging strategy for the passively managed equity portion. Its fixed-income staff may reduce the risk by hedging up to 50% of the total market value of the passively managed segment of the non-dollar equity portfolio. In addition, no more than 100% of each individual currency may be hedged.

Table 9 identifies the investments of these fiduciary funds that are subject to foreign currency risk.

Table 9**Schedule of Investments - Fiduciary Funds - Foreign Currency Risk**

June 30, 2006

(amounts in thousands of U.S. dollars at fair value)

Currency	Cash	Equity	Alternative	Fixed Income	Real Estate	Currency Overlay	Total
Argentine Peso	\$ 14	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 14
Australian Dollar	58,903	3,231,090	16,609	130,886	11,966	(3,960)	3,445,494
Brazilian Real	6,550	765,410	—	—	—	386	772,346
British Pound Sterling	145,573	14,020,722	584,942	1,005,766	—	(50,105)	15,706,898
Canadian Dollar	43,201	3,461,961	48,692	564,352	64,916	(20,366)	4,162,756
Chilean Peso	1,165	56,888	—	—	—	—	58,053
Chinese Yuan	—	2,436	—	—	—	—	2,436
Czech Koruna	656	34,975	—	—	—	—	35,631
Danish Krone	7,384	366,834	650	258,790	—	2,299	635,957
Egyptian Pound	—	11,825	—	—	—	—	11,825
Euro	337,216	23,472,041	646,231	2,157,027	—	203,310	26,815,825
Hong Kong Dollar	16,863	1,880,896	—	—	28,560	1,204	1,927,523
Hungarian Forint	1,038	226,491	—	37,767	—	—	265,296
Indian Rupee	866	334,511	—	—	—	—	335,377
Indonesian Rupiah	1,127	148,600	—	—	—	62	149,789
Israeli Shekel	17	225,189	—	—	—	(905)	224,301
Japanese Yen	166,569	14,547,853	16,753	882,210	48,563	55,576	15,717,524
Malaysian Ringgit	547	256,988	—	—	—	(81)	257,454
Mexican Peso	5,984	502,283	—	103,665	—	(2,380)	609,552
Moroccan Dirham	630	13,067	—	—	—	—	13,697
New Zealand Dollar	2,135	78,103	—	—	—	—	80,238
Norwegian Krone	5,929	609,295	—	132,545	—	(1,080)	746,689
Philippine Peso	3,163	79,451	—	—	—	—	82,614
Polish Zloty	240	113,037	—	92,588	—	(116)	205,749
Singapore Dollar	18,463	583,960	—	117,832	20,454	69	740,778
South African Rand	3,113	961,985	—	8,236	—	1,667	975,001
South Korean Won	2,779	1,756,280	—	32,396	—	—	1,791,455
Sri Lanka Rupee	—	359	—	—	—	—	359
Swedish Krona	26,648	1,412,285	—	6,044	—	1,308	1,446,285
Swiss Franc	16,991	4,216,492	318	—	—	26,074	4,259,875
Taiwan Dollar	12,850	1,213,070	—	—	—	—	1,225,920
Thailand Baht	462	193,042	—	—	—	—	193,504
Turkish New Lira	2,832	338,978	—	—	—	310	342,120
Total exposure to foreign currency risk ..	\$ 889,908	\$ 75,116,397	\$ 1,314,195	\$ 5,530,104	\$ 174,459	\$ 213,272	\$ 83,238,335

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundations, the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA), certain employee benefit funds administered by CalPERS, and various funds that constitute less than 3% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of SCIF, CalHFA, and other component units is invested in the State Treasurer's pooled investment program.

The investments of the University of California, a discretely presented component unit, are primarily stated at fair value. Investments authorized by the regents include equity securities, fixed-income securities, and certain other asset classes. The equity portion of the investment portfolio includes domestic and foreign common and preferred stocks, which may be included in actively managed and passive (index) strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The fixed-income portion of the investment portfolio may include both domestic and foreign securities, as well as with certain securitized investments including mortgage-backed and asset-backed securities. Absolute return strategies, incorporating short sales plus derivative or option positions to implement or hedge an investment position are also authorized. Where donor agreements have placed constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The University of California participates in a securities lending program as a means to augment income. Campus foundations' cash, cash equivalents, and investments that are invested with the University of California and managed by the university's treasurer are included in the university's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral, and collateral held for securities lending is determined based upon the foundations' equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program. The university loans securities to selected brokerage firms and receives collateral that equals or exceeds the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the university unless the borrower defaults. Loans of domestic equities and all fixed-income securities are initially collateralized at 102% of the fair value of the securities loaned. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of the securities loaned. The university earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and a rebate to the borrower. The university receives the net investment income. As of June 30, 2006, the university had no exposure to borrowers, because the amounts the university owed the borrowers exceeded the amounts the borrowers owed the university. The university is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the university or the borrower. Cash collateral is invested by the university's lending agent in a short-term investment pool in the university's name, with guidelines approved by the university. As of June 30, 2006, the securities in these pools had a weighted average maturity of 34 days.

The State Department of Insurance permits SCIF to lend a certain portion of its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. A third-party lending agent has been contracted to lend U.S. Treasury notes and bonds. Collateral, in the form of cash and other securities, is adjusted daily and is required at all times to equal at least 100% of the fair value of securities loaned. Collateral securities received cannot be pledged or sold unless the borrower defaults. The maximum loan term is one year. In accordance with SCIF's investment guidelines, cash collateral was invested in short-term investments at December 31, 2005, with maturities matching the related loans. Interest income on these investments is shared by the borrower, the third-party lending agent, and SCIF.

Table 10 presents the investments of the discretely presented component units by investment type.

Table 10

Schedule of Investments – Discretely Presented Component Units

June 30, 2006

(amounts in thousands)

Investment Type	Fair Value
Equity securities	\$ 4,992,145
Debt securities*	29,334,179
Investment contracts	1,959,535
Mutual funds	3,405,322
Real estate	302,398
Money market securities	389,600
Private equity	381,187
Mortgage loans	253,493
Externally held irrevocable trusts	275,887
Securities lending collateral	5,021,384
Invested for others	(1,133,659)
Other	1,125,687
Total investments	\$ 46,307,158

* Debt securities include short-term investments not included in Cash and Pooled Investments.

1. Interest Rate Risk

Interest rate risk for the University of California's short-term investment pool is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio, as it is managed relative to the liquidity demands of the investors. Portfolio guidelines for the fixed-income portion of the university's general endowment pool limit weighted average effective duration to the effective duration of the benchmark (Lehman Aggregate Index), plus or minus 20%.

SCIF guidelines provide that not less than 15% of the total assets shall be maintained in cash or in securities maturing in five years or less. For information about CalPERS' policies related to interest rate risk, refer to Section B, Fiduciary Funds.

Table 11 presents the interest rate risk of the fixed-income securities of the major discretely presented component units.

Table 11**Schedule of Investments in Fixed-Income Securities - Discretely Presented Component Units - Interest Rate Risk**

June 30, 2006

(amounts in thousands)

Investment Type	University of California		University of California Foundations	
	Fair Value at	Effective	Fair Value at	Effective
	Year End	Duration	Year End	Duration
U.S. Treasury bills, notes, and bonds	\$ 1,497,513	2.50	\$ 83,863	3.20
U.S. Treasury strips	41,791	10.80	—	—
U.S. TIPS	243,672	5.10	—	—
U.S. government-backed securities	3,764	6.60	5,560	3.90
U.S. government-backed asset-backed securities	3,098	5.10	21	3.20
Corporate bonds	1,869,577	2.40	58,191	5.10
Commercial paper	2,685,766	0.00	—	—
U.S. agencies	1,698,310	1.10	88,660	2.80
U.S. agencies asset-backed securities	313,912	4.60	2,089	3.60
Corporate asset-backed securities	123,151	8.40	2,452	1.30
Supranational/foreign	789,424	2.00	618	1.80
Other	536	8.80	1,211	2.00
Corporate (foreign currency denominated)	6,437	27.10	—	—
U.S. bond funds	34,800	4.80	195,062	5.00
Non-U.S. bond funds	—	—	9,306	5.90
Money market funds	10,127	0.00	372,968	1.10
Mortgage loans	246,741	0.00	6,752	0.00
Total	\$ 9,568,619		\$ 826,753	

Investment Type	State Compensation Insurance Fund		California Housing Finance Agency	
	Fair Value at	Weighted	Fair Value at	Effective
	Year End	Average Maturity	Year End	Duration
Securities lending collateral	\$ 1,285,600	0.08	\$ —	—
U.S. Treasury and agency securities	5,333,022	2.72	47,940	7.00
Municipal securities	242,314	10.92	—	—
Public utilities	572,792	5.80	—	—
Corporate bonds	5,434,676	4.59	—	—
Commercial paper	234,269	0.08	77,560	0.03
Special revenue	756,456	9.89	—	—
Other government	297,338	2.02	—	—
Mortgage-backed securities	5,491,348	21.26	—	—
Mutual funds	323,875	0.08	—	—
Total	\$ 19,971,690		\$ 125,500	

Table 12 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously) because of the existence of prepayment or conversion features, although the effective duration of these securities may be low.

Table 12

Schedule of Highly Sensitive Investments in Debt Securities – University of California and its Foundations – Interest Rate Risk
June 30, 2006
(amounts in thousands)

	University of California		University of California Foundations	
	Fair Value at Year End	Effective Duration	Fair Value at Year End	Effective Duration
Mortgage-Backed Securities	\$ 372,010	6.10	\$ 72,678	2.80
<p>These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.</p>				
Collateralized Mortgage Obligations	68,151	3.50	13,618	2.30
<p>Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the underlying mortgages are subject to a lower propensity of prepayments.</p>				
Other Asset-Backed Securities			2,409	1.30
<p>Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.</p>				
Callable Bonds	736,511	1.50	1,095	4.20
<p>Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The university must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.</p>				

2. Credit Risk

The investment guidelines for the University of California's short-term investment pool provide that no more than 5% of the total market value of the pool's portfolio may be invested in securities rated below investment grade (BB, Ba, or lower). The average credit quality of the pool must be A or better and commercial paper must be rated at least A-1 or P-1. For its general endowment pool, the university uses a fixed-income benchmark, the Lehman Aggregate Index, which is comprised of approximately 30% high grade corporate bonds and 30% to 35% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35% to 40% are government-issued bonds. Credit risk in this pool is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10% of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

SCIF investment guidelines provide that securities issued and/or guaranteed by the government of Canada and its political subdivisions must be rated AA or equivalent by a nationally recognized rating service, provided the rating of another service, if it has a rating, is not less than AA. Securities issued and/or guaranteed by a state or its political subdivision must be rated A or equivalent by a nationally recognized rating service, provided the rating of another service, if it has a rating, is not less than A. Securities issued by a qualifying corporation must be rated A or equivalent by a nationally recognized rating service, provided the rating of another service, if it has a rating, is not less than A.

Table 13 presents the credit risk of the fixed-income securities of the major discretely presented component units.

Table 13

Schedule of Investments in Fixed-Income Securities – Major Discretely Presented Component Units – Credit Risk

June 30, 2006

(amounts in thousands)

<u>Credit Rating as of Year End</u>		<u>Fair Value</u>
<u>Short-term</u>	<u>Long-term</u>	
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$ 16,535,596
A-1/P-1/F-1	AA/Aa/AA	6,236,567
A-2/P-2/F-2	A/A/A	5,865,920
A-3/P-3/F-3	BBB/Baa/BBB	731,868
B/NP/B	BB/Ba/BB	97,031
B/NP/B	B/B/B	7,074
Not rated		957,443
Total fixed-income securities		\$ 30,431,499

3. Concentration of Credit Risk

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of the University of California's portfolio include a limit of no more than 3% of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the university's short-term investment pool. Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk. The

University of California held \$1.2 billion in Federal agency securities of the Federal National Mortgage Association and \$805 million in Federal agency securities of the Federal Home Loan Mortgage Corporation, which represented 8.70% and 6.09%, respectively, of the university's total investments as of June 30, 2006.

4. Custodial Credit Risk

The University of California's securities are registered in the university's name by the custodial bank as an agent for the university. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote. Some of the investments of certain University of California campus foundations are exposed to custodial credit risk. These investments may be uninsured, or not registered in the name of the campus foundation and held by a custodian.

Table 14 presents the fixed-income securities of the major discretely presented component units subject to custodial credit risk.

Table 14

Schedule of Investments in Fixed-Income Securities – University of California Foundations – Custodial Credit Risk

June 30, 2006

(amounts in thousands)

Investment Type	Fair Value
Domestic equity securities	\$ 200,454
Foreign equity securities	16,286
U.S. Treasury bills, notes, and bonds	42,123
U.S. government-backed securities	1,782
Corporate bonds	11,247
U.S. agencies	18,017
Corporate asset-backed securities	467
Total exposure to custodial credit risk.....	\$ 290,376

5. Foreign Currency Risk

The University of California's portfolio guidelines for U.S. investment-grade fixed-income securities allow exposure to non-U.S. dollar denominated bonds up to 10% of the total portfolio market value. Exposure to foreign currency risk from these securities may be fully or partially hedged using forward foreign currency exchange contracts. Under the university's investment policies, such instruments are not permitted for speculative use or to create leverage.

Table 15 identifies the investments of the University of California – including its campus foundations – that are subject to foreign currency risk.

Table 15

Schedule of Investments – University of California – Foreign Currency Risk

June 30, 2006

(amounts in thousands of U.S. dollars at fair value)

Currency	Equity	Fixed-Income	Total
Australian Dollar	\$ 52,560	\$ —	\$ 52,560
British Pound Sterling	289,683	—	289,683
Canadian Dollar	63,992	6,437	70,429
Danish Krone	7,300	—	7,300
Euro	398,171	—	398,171
Hong Kong Dollar	32,202	—	32,202
Japanese Yen	271,837	—	271,837
New Zealand Dollar	1,266	—	1,266
Norwegian Krone	9,215	—	9,215
Singapore Dollar	13,250	—	13,250
South African Rand	2,428	—	2,428
South Korean Won	5,183	—	5,183
Swedish Krona	20,920	—	20,920
Swiss Franc	91,203	—	91,203
Thailand Baht	1,431	—	1,431
Other	13,780	—	13,780
Commingled currencies	870,991	—	870,991
Total exposure to foreign currency risk	\$ 2,145,412	\$ 6,437	\$ 2,151,849

NOTE 4: ACCOUNTS RECEIVABLE

Table 16 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges. The adjustment for the fiduciary funds represents amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Table 16

Schedule of Accounts Receivable

June 30, 2006

(amounts in thousands)

	Reimbursement of Accrued					Total
	Taxes	Interest Expense	Lottery Retailers	Unemployment Programs	Other	
Current governmental activities						
General Fund	\$ 7,398,343	\$ —	\$ —	\$ —	\$ 687,861	\$ 8,086,204
Federal Fund	—	—	—	—	76,666	76,666
Transportation Construction Fund	324,672	—	—	—	71,693	396,365
Nonmajor governmental funds	191,811	63	—	—	1,143,926	1,335,800
Internal service funds	—	—	—	—	149,458	149,458
Adjustment:						
Fiduciary funds	—	—	—	—	132,485	132,485
Total current governmental activities	\$ 7,914,826	\$ 63	\$ —	\$ —	\$ 2,262,089	\$ 10,176,978
Amounts not scheduled for collection during the subsequent year						
	\$ 1,128,241	\$ —	\$ —	\$ —	\$ 81,156	\$ 1,209,397
Current business-type activities						
Water Resources Fund	—	—	—	—	109,952	109,952
Public Buildings Construction Fund ..	—	126,480	—	—	—	126,480
State Lottery Fund	—	—	228,844	—	—	228,844
Unemployment Programs Fund	—	—	—	156,814	—	156,814
Nonmajor enterprise funds	—	—	—	—	44,188	44,188
Adjustment:						
Account reclassification	—	(126,480)	—	—	(3,239)	(129,719)
Total current business-type activities	\$ —	\$ —	\$ 228,844	\$ 156,814	\$ 150,901	\$ 536,559
Amounts not scheduled for collection during the subsequent year						
	\$ —	\$ —	\$ —	\$ 30,503	\$ —	\$ 30,503

NOTE 5: RESTRICTED ASSETS

Table 17 presents a summary of the legal restrictions placed on assets in the enterprise funds of the primary government and the discretely presented component units.

Table 17**Schedule of Restricted Assets**

June 30, 2006

(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	\$ 1,384,174	\$ 683,066	\$ 58,300	\$ 569,003	\$ 2,694,543
Construction	94,144	—	—	—	94,144
Operations	1,541,002	—	—	—	1,541,002
Other	15,537	—	—	—	15,537
Total primary government	3,034,857	683,066	58,300	569,003	4,345,226
Discretely presented component units					
Nonmajor component units – debt service.....	127,404	140,451	—	—	267,855
Total discretely presented component units	127,404	140,451	—	—	267,855
Total restricted assets	\$ 3,162,261	\$ 823,517	\$ 58,300	\$ 569,003	\$ 4,613,081

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

Table 18 summarizes the minimum lease payments to be received by the State Public Works Board for the primary government.

Table 18

Schedule of Minimum Lease Payments to Be Received by the State Public Works Board for the Primary Government

(amounts in thousands)

<u>Year Ending June 30</u>	<u>Primary Government Agencies</u>	<u>University of California</u>	<u>Local Agencies</u>	<u>Total</u>
2007	\$ 465,198	\$ 160,109	\$ 64,669	\$ 689,976
2008	463,131	163,854	64,905	691,890
2009	456,499	161,838	64,627	682,964
2010	440,275	154,441	63,846	658,562
2011	417,562	154,305	62,516	634,383
2012-2016	1,981,448	723,019	277,250	2,981,717
2017-2021	1,550,066	580,091	93,978	2,224,135
2022-2026	826,354	333,838	32,792	1,192,984
2027-2031	377,399	196,727	26,168	600,294
Total minimum lease payments	6,977,932	2,628,222	750,751	10,356,905
Less: unearned income	2,678,674	992,505	224,843	3,896,022
Net investment in direct financing leases	\$ 4,299,258	\$ 1,635,717	\$ 525,908	\$ 6,460,883

NOTE 7: CAPITAL ASSETS

Table 19 summarizes the capital activity for the primary government, which includes \$5.8 billion in capital assets related to capital leases.

Table 19

Schedule of Changes in Capital Assets – Primary Government

June 30, 2006

(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 14,730,050	\$ 610,571	\$ 190,261	\$ 15,150,360
State highway infrastructure	55,114,882	710,636	100,027	55,725,491
Collections	19,354	1,065	2	20,417
Construction in progress	5,628,463	2,868,995	2,014,304	6,483,154
Total capital assets not being depreciated	75,492,749	4,191,267	2,304,594	77,379,422
Capital assets being depreciated				
Buildings and improvements	15,290,043	1,305,565	265,849	16,329,759
Infrastructure	409,703	116,035	3,239	522,499
Equipment and other assets.....	3,988,170	307,501	357,995	3,937,676
Total capital assets being depreciated	19,687,916	1,729,101	627,083	20,789,934
Less accumulated depreciation for:				
Buildings and improvements	4,826,144	588,122	90,880	5,323,386
Infrastructure.....	127,375	27,487	6,109	148,753
Equipment and other assets.....	3,048,796	295,349	410,008	2,934,137
Total accumulated depreciation	8,002,315	910,958	506,997	8,406,276
Total capital assets being depreciated, net	11,685,601	818,143	120,086	12,383,658
Governmental activities, capital assets, net	\$ 87,178,350	\$ 5,009,410	\$ 2,424,680	\$ 89,763,080
Business-type activities				
Capital assets not being depreciated				
Land	\$ 45,782	\$ 2	\$ —	\$ 45,784
Construction in progress	1,612,665	391,251	1,101,291	902,625
Total capital assets not being depreciated	1,658,447	391,253	1,101,291	948,409
Capital assets being depreciated				
Buildings and improvements	6,708,231	369,270	60,758	7,016,743
Infrastructure	1,208,258	11,799	10	1,220,047
Equipment and other assets.....	81,908	11,911	3,576	90,243
Total capital assets being depreciated	7,998,397	392,980	64,344	8,327,033
Less accumulated depreciation for:				
Buildings and improvements	2,515,468	180,527	25,476	2,670,519
Infrastructure	677,051	19,676	—	696,727
Equipment and other assets.....	53,838	9,735	4,352	59,221
Total accumulated depreciation	3,246,357	209,938	29,828	3,426,467
Total capital assets being depreciated, net	4,752,040	183,042	34,516	4,900,566
Business-type activities, capital assets, net	\$ 6,410,487	\$ 574,295	\$ 1,135,807	\$ 5,848,975

Table 20 summarizes the depreciation expense charged to the activities of the primary government.

Table 20

Schedule of Depreciation Expense – Primary Government

June 30, 2006

(amounts in thousands)

	Amount
Governmental activities	
General government	\$ 70,795
Education	305,690
Health and human services	38,624
Resources	58,943
State and consumer services	37,657
Business and transportation	87,828
Correctional programs	229,403
Internal service funds (charged to the activities that utilize the fund)	82,018
Total depreciation expense – governmental activities	910,958
Business-type activities	
Enterprise	209,938
Total primary government	\$ 1,120,896

Table 21 summarizes the capital activity for discretely presented component units.

Table 21

Schedule of Changes in Capital Assets – Discretely Presented Component Units

June 30, 2006

(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 598,297	\$ 72,023	\$ 3,416	\$ 666,904
Collections	250,445	9,351	1,418	258,378
Construction in progress	3,359,432	51,015	175,601	3,234,846
Total capital assets not being depreciated	4,208,174	132,389	180,435	4,160,128
Capital assets being depreciated				
Buildings and improvements	15,622,634	1,731,787	1,792	17,352,629
Equipment and other depreciable assets	7,548,727 *	584,872	294,343	7,839,256
Infrastructure	366,133	37,257	4,909	398,481
Total capital assets being depreciated	23,537,494 *	2,353,916	301,044	25,590,366
Less accumulated depreciation for:				
Buildings and improvements	5,805,752	544,529	8,284	6,341,997
Equipment and other depreciable assets	4,977,918 *	537,094	276,729	5,238,283
Infrastructure	164,527	6,754	115	171,166
Total accumulated depreciation	10,948,197 *	1,088,377	285,128	11,751,446
Total capital assets being depreciated, net	12,589,297 *	1,265,539	15,916	13,838,920
Capital assets, net	\$ 16,797,471 *	\$ 1,397,928	\$ 196,351	\$ 17,999,048

* Restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due to taxpayers, vendors, customers, beneficiaries, and employees related to different programs. Table 22 presents details related to the accounts payable.

The adjustment for the fiduciary funds represents amounts due to fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets.

Table 22**Schedule of Accounts Payable**

June 30, 2006

(amounts in thousands)

	<u>Education</u>	<u>Health and Human Services</u>	<u>Resources</u>	<u>Business and Transportation</u>	<u>General Government and Others</u>	<u>Total</u>
Governmental activities						
General Fund	\$ 660,084	\$ 211,630	\$ 112,425	\$ 1,191	\$ 554,443	\$ 1,539,773
Federal Fund	588,476	344,737	63,600	272,895	276,567	1,546,275
Transportation Construction Fund	1,007	—	—	121,687	2,006	124,700
Nonmajor governmental funds	558,690	566,876	178,061	1,145,466	554,185	3,003,278
Internal service funds	—	—	6,157	4,449	151,121	161,727
Adjustment:						
Fiduciary funds	4,003,763	3,553,931	—	43,431	600,419	8,201,544
Total governmental activities	\$ 5,812,020	\$ 4,677,174	\$ 360,243	\$ 1,589,119	\$ 2,138,741	\$ 14,577,297
Business-type activities						
Electric Power Fund	\$ —	\$ —	\$ 394,000	\$ —	\$ —	\$ 394,000
Water Resources Fund	—	—	69,733	—	—	69,733
Public Building Construction Fund	—	—	—	—	4,072	4,072
State Lottery Fund	—	—	—	—	35,782	35,782
Unemployment Program Fund	—	14	—	—	3	17
Nonmajor enterprise funds	18,244	402	48	1,865	1,575	22,134
Adjustment:						
Fiduciary funds	—	—	—	—	10,850	10,850
Total business-type activities	\$ 18,244	\$ 416	\$ 463,781	\$ 1,865	\$ 52,282	\$ 536,588

NOTE 9: SHORT-TERM FINANCING

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures. A significant portion of the General Fund revenues are received in the latter half of the fiscal year, while disbursements are paid more evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants (RAWs). On November 10, 2005, the State issued \$3.0 billion of RANs to fund cash flow needs for the 2005-06 fiscal year. The RANs were repaid on June 30, 2006.

The California Housing Finance Agency, a discretely presented component unit, entered into an agreement with a financial institution to provide a line of credit for short-term borrowings of up to \$100 million, which may increase up to \$150 million. At June 30, 2006, draws totaling \$57 million were outstanding.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2006, the primary government had long-term obligations totaling \$101.7 billion. Of that amount, \$6.2 billion is due within one year. The \$6.2 billion includes \$575 million in outstanding commercial paper that had been scheduled to be refunded by general obligation bonds issued during the fiscal year. This commercial paper was refunded in July and August 2006. The largest change in governmental activities long-term obligations is an increase of \$2.8 billion in the Proposition 98 minimum funding guarantee owed to schools related to a settlement reached with the California Teacher's Association.

The other long-term obligations for governmental activities consist of \$1.2 billion for net pension obligations, \$385 million owed for lawsuits, and the University of California unfunded pension liability of \$74 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate loans payable, net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability. The \$566 million in other long-term obligations for business-type activities is mainly for advance collections. These other long-term obligations do not have required payment schedules or they will be paid when funds are appropriated. Table 23 summarizes the changes in the long-term obligations during the year ended June 30, 2006.

Table 23**Schedule of Changes in Long-term Obligations**

(amounts in thousands)

	Balance			Balance		
	July 1, 2005	Additions	Deductions	June 30, 2006	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Loans payable	\$ 1,011,800	\$ 42,874	\$ —	\$ 1,054,674	\$ —	\$ 1,054,674
Compensated absences payable ...	1,724,963	871,153	821,452	1,774,664	99,658	1,675,006
Certificates of participation and commercial paper	752,013	3,952,704	3,780,827	923,890	581,994	341,896
Capital lease obligations	3,918,560	757,098	208,830	4,466,828	201,628	4,265,200
General obligation bonds payable ..	45,541,417	5,517,040	4,054,640	47,003,817	1,792,430	45,211,387
Revenue bonds payable	8,068,980	3,381,388	4,149,730	7,300,638	99,995	7,200,643
Proposition 98 funding guarantee...	1,417,600	2,847,000	17,000	4,247,600	133,000	4,114,600
Workers compensation	2,805,933	110,495	341,729	2,574,699	313,894	2,260,805
Mandated costs	2,323,377	726,299	204,108	2,845,568	1,204,020	1,641,548
Other long-term obligations	1,644,028	67,772	47,600	1,664,200	47,940	1,616,260
Total	\$ 69,208,671	\$ 18,273,823	\$ 13,625,916	\$ 73,856,578	\$ 4,474,559	\$ 69,382,019
Business-type activities						
Benefits payable	\$ 16,591	\$ —	\$ 2,583	\$ 14,008	\$ —	\$ 14,008
Lottery prizes and annuities	2,346,665	2,298,052	2,423,653	2,221,064	661,766	1,559,298
Compensated absences payable ...	44,829	22,640	18,354	49,115	24,323	24,792
Certificates of participation and commercial paper	51,093	257,496	77,468	231,121	—	231,121
General obligation bonds payable ..	2,090,105	—	126,800	1,963,305	129,360	1,833,945
Revenue bonds payable	22,943,536	1,583,149	1,714,176	22,812,509	942,911	21,869,598
Other long-term obligations	547,711	18,893	637	565,967	5,475	560,492
Total	\$ 28,040,530	\$ 4,180,230	\$ 4,363,671	\$ 27,857,089	\$ 1,763,835	\$ 26,093,254

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 24 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building.

Table 24**Schedule of Debt Service Requirements for Certificates of Participation – Primary Government**

(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2007	\$ 6,994	\$ 2,644	\$ 9,638
2008	6,653	2,989	9,642
2009	6,410	3,228	9,638
2010	6,304	3,337	9,641
2011	6,449	3,192	9,641
2012-2016	41,580	9,528	51,108
Total	\$ 74,390	\$ 24,918	\$ 99,308

Table 25 shows debt service requirements for certificates of participation for the University of California, a discretely presented component unit.

Table 25

Schedule of Debt Service Requirements for Certificates of Participation – University of California – Discretely Presented Component Unit

(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2007	\$ 3,840	\$ 2,432	\$ 6,272
2008	4,020	2,258	6,278
2009	2,175	2,126	4,301
2010	2,270	2,034	4,304
2011	1,015	1,967	2,982
2012-2016	5,760	9,146	14,906
2017-2021	7,300	7,603	14,903
2022-2026	9,430	5,475	14,905
2027-2031	12,175	2,726	14,901
2032-2036	2,830	149	2,979
Total	\$ 50,815	\$ 35,916	\$ 86,731

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial-paper-borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Under the general obligation and enterprise fund programs, commercial paper may be issued at the prevailing market rate, not to exceed 11%, for periods not to exceed 270 days from the date of issuance. The proceeds from the issuance of commercial paper are restricted primarily for construction costs of general obligation bond program projects and certain state water projects. For both commercial-paper-borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The current agreement for the general obligation commercial paper program, effective December 1, 2004, authorizes the issuance of notes in an aggregate principal amount not to exceed \$1.5 billion. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed \$142 million. As of June 30, 2006, the enterprise fund commercial paper program had \$129 million in outstanding notes.

During the year ended June 30, 2006, the primary government issued \$4.0 billion in general obligation commercial paper and \$3.8 billion in long-term general obligation bonds to refund outstanding commercial paper. However, by June 30, 2006, only \$3.2 billion of the \$3.8 billion had been used to repay outstanding commercial paper. The remaining \$575 million was used to repay commercial paper in July and August 2006. As of June 30, 2006, the general obligation commercial paper program had \$906 million in outstanding commercial paper notes, of which \$575 million is considered a current liability. Of the \$331 million noncurrent liability, \$56 million is for business-type activities and the remainder is for governmental activities.

The primary government has a revenue bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2006, \$46 million in outstanding BANs existed in anticipation of issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Included in other borrowings, which total approximately \$249 million, are various unsecured financing agreements, totaling approximately \$139 million, with commercial banks.

The University of California has established a \$550 million commercial paper program with tax-exempt and taxable components. The program is supported by the legally available unrestricted investments balance in the University of California's short-term investment pool. Commercial paper has been issued by the University to provide for interim financing of the construction, renovation, and acquisition of certain facilities and equipment. Commercial paper is secured by a pledge of the net revenues generated by the enterprise financed, not by any encumbrance, mortgage, or other pledge of property, and does not constitute a general obligation of the University of California. At June 30, 2006, outstanding tax-exempt and taxable commercial paper totaled \$430 million and \$120 million, respectively.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2006, was approximately \$8.0 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of minimum capital lease payments for the primary government is composed of \$12 million from internal service funds and \$4.5 billion from other governmental activities. Note 10, Long-term Obligations, reports the additions and deductions of capital lease obligations. Also reported in Note 10 are the current and noncurrent portions of the capital lease obligations. Lease expenditures for the year ended June 30, 2006, amounted to approximately \$779 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency, amounting to a present value of net minimum lease payments of \$4.3 billion. This amount represents 96.5% of the total present value of minimum lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire equipment.

The capital lease commitments do not include \$606 million of lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported in the government-wide financial statements. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements.

Table 26 summarizes future minimum lease commitments of the primary government.

Table 26

Schedule of Future Minimum Lease Commitments – Primary Government

(amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases		Total
		Internal Service Funds	Other Governmental Activities	
2007	\$ 216,415	\$ 2,003	\$ 502,631	\$ 721,049
2008	170,057	2,003	494,891	666,951
2009	125,444	2,006	481,061	608,511
2010	68,184	2,046	457,924	528,154
2011	34,941	2,055	430,958	467,954
2012-2016	106,700	3,955	2,038,732	2,149,387
2017-2021	16,821	—	1,597,917	1,614,738
2022-2026	759	—	850,280	851,039
2027-2031	335	—	377,399	377,734
2032-2036	355	—	—	355
2037-2041	95	—	—	95
2042-2046	95	—	—	95
2047-2051	95	—	—	95
2052-2056	91	—	—	91
2057-2061	44	—	—	44
Total minimum lease payments	\$ 740,431	14,068	7,231,793	\$ 7,986,292
Less: amount representing interest		1,947	2,777,086	
Present value of net minimum lease payments		\$ 12,121	\$ 4,454,707	

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2006, was approximately \$3.6 billion. Table 27 presents the future minimum lease commitments for the University of California and the State Compensation Insurance Fund. Operating lease expenditures for the year ended June 30, 2006, amounted to approximately \$223 million for major discretely presented component units.

Table 27**Schedule of Future Minimum Lease Commitments – Major Discretely Presented Component Units**

(amounts in thousands)

Year Ending June 30	University of California		State Compensation Insurance Fund		Total
	Capital	Operating	Operating		
2007	\$ 209,413	\$ 94,015	\$ 50,586	\$	354,014
2008	205,117	78,244	42,959		326,320
2009	206,963	63,539	31,277		301,779
2010	174,618	43,614	24,302		242,534
2011	168,358	29,914	17,466		215,738
2012-2016	836,563	36,227	17,671		890,461
2017-2021	634,173	3,334	—		637,507
2022-2026	401,784	3,622	—		405,406
2027-2031	230,960	4,067	—		235,027
2032-2036	—	4,641	—		4,641
2037-2041	—	3,692	—		3,692
Total minimum lease payments	3,067,949	\$ 364,909	\$ 184,261	\$	3,617,119
Less: amount representing interest	1,055,480				
Present value of net minimum lease payments	\$ 2,012,469				

NOTE 14: COMMITMENTS

As of June 30, 2006, the primary government had commitments of \$6.5 billion for certain highway construction projects. These commitments are not included in the reserve for encumbrances in the Federal Fund and the Transportation Construction Fund because the future expenditures related to these commitments will be reimbursed with \$3.0 billion from local governments and \$3.5 billion in proceeds of approved federal grants. The ultimate liability will not accrue to the State. In addition, the primary government had commitments of \$446 million for special education programs and \$90 million for services provided under the welfare program that are not included in the reserve for encumbrances in the Federal Fund and will be reimbursed by the proceeds of approved federal grants.

The primary government had other commitments, totaling \$29.6 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Assets. These commitments included \$10.6 billion in long-term contracts to purchase power; these contracts are not included as a liability on the Statement of Net Assets of the Electric Power Fund. In addition, variable costs, estimated at \$9.4 billion by management, are associated with several of the contracts. Purchases will take place in the future, and the commitments will be met with future receipts from charges to residential and commercial energy users. The \$29.6 billion in commitments also included grant agreements, totaling approximately \$7.5 billion, to reimburse other entities for construction projects for school building aid, parks, and other improvements. The constructed buildings will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts.

In addition to the grant commitments, the primary government had commitments of approximately \$1.1 billion for the construction of water projects and the purchase of power. Included in the \$1.1 billion were certain

power purchase, sale, and exchange contracts with a fair value of \$170 million as of June 30, 2006. The primary government also had commitments of \$692 million for California State University construction projects, \$165 million for the maintenance and operation of the California State Lottery's automated gaming system and its communication systems and services, and \$125 million to veterans for the purchase of properties under contracts of sale. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2006, the discretely presented component units had other commitments that are not included as liabilities on the Statement of Net Assets. The University of California had authorized construction projects totaling \$2.7 billion. The university also made commitments to make investments in certain investment partnerships pursuant to provisions in the partnership agreements. These commitments totaled \$615 million as of June 30, 2006. Other major component units had outstanding commitments to provide \$320 million for loans under various housing revenue bond programs and \$20 million to other governments for infrastructure improvements. In addition, the California Public Employees' Retirement System had capital commitments to private equity funds and to purchase real estate equity totaling \$13.8 billion and \$747 million, respectively, that remained unfunded and not recorded as liabilities on the Statement of Net Assets of either the fiduciary or discretely presented component units.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, 2006, the State had \$47.0 billion in outstanding general obligation bonds related to governmental activities and \$2.0 billion related to business-type activities. In addition, \$31.0 billion of general obligation bonds had been authorized but not issued. This amount includes \$16.9 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, \$906 million in general obligation indebtedness was issued in the form of commercial paper notes but was not yet retired by long-term bonds.

Note 10, Long-term Obligations, discusses the change to general obligation bonds payable.

A. Variable-rate General Obligation Bonds

As part of the *Strategic Debt Management Plan* adopted in the 2001-02 fiscal year, the State issued variable-rate general obligation bonds. Prior to the 2005-06 fiscal year, the State had \$2.4 billion of variable-rate general obligation bonds outstanding, consisting of \$840 million in daily rate, \$1.1 billion in weekly rate, and \$500 million in auction rate. On November 16, 2005, the State sold an additional \$1.0 billion of variable-rate general obligation bonds consisting of \$150 million in daily rate and \$850 million in weekly rate.

The interest rates associated with the daily rates and weekly rates are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. The interest rates on the auction-rate bonds are determined by the auction agent through an auction process and the interest is paid on the business day immediately following each auction rate period.

Letters of credit were issued to secure payment of principal and interest on the daily and weekly variable-rate bonds. Under these letters of credit, the credit providers pay all principal and interest payments to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. Different credit providers exist for each series of variable-rate bonds issued. For the variable-rate bonds issued during the 2003-04 fiscal year, expiration dates of the letters of credit for the daily and weekly variable-rate bonds have been amended to December 11, 2009, and December 31, 2015, respectively. For the variable-rate bonds issued during the 2004-05 fiscal year, the initial expiration date of the letters of credit is October 20, 2009. For the variable-rate bonds issued during the 2005-06 fiscal year, the initial expiration date of the letters of credit is November 17, 2010.

Based on the schedules provided in the Official Statements, sinking fund deposits for the variable-rate general obligation bonds will be set aside in a mandatory sinking fund at the beginning of each of the following fiscal years: the 2006-07 fiscal year, the 2015-16 through 2033-34 fiscal years, and the 2039-2040 fiscal year. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds will be redeemed in whole or in part on an interest payment date in that fiscal year.

B. Economic Recovery Bonds

On March 2, 2004, voters approved the one-time issuance of up to \$15 billion in Economic Recovery Bonds; during the 2003-04 fiscal year, the State sold a total of \$10.9 billion of these bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund, that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2006, the State had \$9.9 billion of Economic Recovery Bonds outstanding. Of the \$9.9 billion outstanding, bonds totaling \$3.0 billion are variable rate bonds, consisting of \$1.0 billion in daily rate and \$2.0 billion in weekly rate. The interest rates associated with the daily rates and weekly rates are determined by the remarketing agents to be the lowest rate that would enable them to sell the bonds for delivery on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. As described in the Official Statement, payment of principal, interest, and purchase price upon tender, for a portion of these bonds, is secured by a direct-pay letter of credit. Payment of principal and interest for another portion of these bonds is secured by a bond insurance policy, together with an insured standby bond purchase agreement upon tender. A separate uninsured standby bond purchase agreement supports the purchase upon tender for the final portion of these bonds, without credit enhancement in the form of an insurance policy or letter of credit related to the payment of principal or interest. The State reimburses its credit providers for any amounts paid, plus interest. Different credit providers exist for each series of variable-rate bonds issued. The initial expiration dates for these letters of credit, bond insurance policies, and standby bond purchase agreements fall between June 15, 2007, and December 31, 2015.

Another \$1.0 billion of the outstanding \$9.9 billion in Economic Recovery Bonds have interest-reset dates of either July 1, 2007, or July 1, 2008. At that time, the bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium. Upon mandatory tender, the State will seek to remarket these bonds. The debt service requirements published in the Official Statement differ from the calculation included in Table 28 because the statement presumes a successful remarketing at an interest rate of 3.33% per year, along with the creation of a mandatory sinking fund. The debt service calculation in Table 28 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset date, and does not assume the future establishment of a sinking fund. In the event of a failed remarketing, the State is required to return all tendered bonds to their initial purchasers and pay an annual interest rate of 11% until there is a successful remarketing of these bonds.

C. Debt Service Requirements

Table 28 shows the debt service requirements for all general obligation bonds as of June 30, 2006. The estimated debt service requirements for the \$3.4 billion variable-rate general obligation bonds and the \$3.0 billion variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2006.

Table 28

Schedule of Debt Service Requirements for General Obligation Bonds

(amounts in thousands)

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 1,792,430	\$ 2,269,518	\$ 4,061,948	\$ 129,360	\$ 106,440	\$ 235,800
2008	1,925,308	2,193,605	4,118,913	136,430	96,618	233,048
2009	2,052,770	2,092,261	4,145,031	135,340	86,830	222,170
2010	2,195,625	1,983,817	4,179,442	118,190	77,557	195,747
2011	2,217,779	1,867,358	4,085,137	86,480	70,227	156,707
2012-2016.....	8,572,605	7,844,009	16,416,614	538,200	281,203	819,403
2017-2021.....	9,562,315	5,701,163	15,263,478	405,515	154,065	559,580
2022-2026.....	8,154,010	3,692,831	11,846,841	154,650	89,711	244,361
2027-2031.....	6,786,690	1,871,819	8,658,509	148,835	51,062	199,897
2032-2036.....	3,743,285	382,676	4,125,961	101,305	11,010	112,315
2037-2041.....	1,000	152	1,152	9,000	227	9,227
Total	\$ 47,003,817	\$ 29,899,209	\$ 76,903,026	\$ 1,963,305	\$ 1,024,950	\$ 2,988,255

D. General Obligation Bond Defeasances

1. Current Year

On September 21, 2005, the primary government issued \$646 million in various-purpose general obligation refunding bonds in order to current-refund and advance-refund \$646 million in general obligation bonds maturing in 2014 through 2028 and 2030. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This refunding decreased overall debt service payments by \$62 million and resulted in an economic gain of

\$40 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 4.3% per year over the life of the new bonds.

On December 21, 2005, the primary government issued \$518 million in Class-size Reduction Public Education Facilities general obligation refunding bonds in order to current-refund and advance-refund \$515 million in general obligation bonds maturing in 2015 through 2026, 2028, and 2030. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding reduced debt service payments by \$57 million and resulted in an economic gain of \$29 million, using a discount rate of 4.5%.

On April 26, 2006, the primary government issued \$238 million in various-purpose general obligation refunding bonds in order to advance-refund \$231 million in general obligation bonds maturing in years 2015 through 2028 and 2030. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for the bonds has been removed from the financial statements. This refunding reduced debt service payments by \$23 million and resulted in an economic gain of \$12 million, using a discount rate of 4.6%.

On June 28, 2006, the primary government issued \$314 million in various-purpose general obligation refunding bonds in order to current-refund and advance-refund \$307 million in general obligation bonds maturing in 2010 through 2030. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for the bonds has been removed from the financial statements. This refunding reduced debt service payments by \$42 million and resulted in an economic gain of \$25 million, using a discount rate of 4.6%.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2006, the outstanding balance of general obligation bonds defeased in prior years was approximately \$2.2 billion.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. This bond funds activity in the Transportation Construction Fund and is included in the governmental activities column of the government-wide Statement of Net Assets.

The California State University, Channel Islands Financing Authority, a blended component unit in the California State University Programs Fund, issues revenue bonds to provide funding for public capital improvements serving the California State University, Channel Islands. These bonds are secured and payable from special taxes, tax increment revenues, and pledged rental housing revenues of the California State University, Channel Islands Site Authority, which is also a blended component unit in the California State University Programs Fund. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. The bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, is authorized by state law to issue asset-backed bonds to purchase the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue. The primary government has no legal liability for the payment of principal and interest on these bonds. These bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

Under state law, certain building authorities may issue revenue bonds. These bonds are issued for the purpose of acquiring and constructing buildings for public education purposes and for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, public building construction, financing of electric power purchases for resale to utility customers, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance the construction, renovation, and acquisition of certain facilities and equipment.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed- and variable-rate revenue bonds to make loans to finance housing developments and to finance the acquisition of homes by low- and moderate-income families. Variable-rate debt is typically tied to a common index, such as the Bond Market Association (BMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically.

Table 29 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 29**Schedule of Revenue Bonds Outstanding**

June 30, 2006

(amounts in thousands)

Primary government	
Governmental activities	
Transportation Construction Fund	\$ 525,460
Nonmajor governmental funds	
California State University Programs Fund	195,525
Golden State Tobacco Securitization Corporation Fund	5,993,758
Building authorities	585,895
Total governmental activities	7,300,638
Business-type activities	
Electric Power Fund	10,465,000
Water Resources Fund	2,389,333
Public Building Construction Fund	6,763,556
Nonmajor enterprise funds	3,194,620
Total business-type activities	22,812,509
Total primary government	30,113,147
Discretely presented component units	
University of California	6,014,385
California Housing Finance Agency	7,444,363
Nonmajor component units	584,590
Total discretely presented component units	14,043,338
Total	\$ 44,156,485

Table 30 shows the debt service requirements for fixed- and variable-rate bonds. It excludes certain unamortized refunding costs, premiums, discounts, and other costs that are included in Table 29.

Table 30

Schedule of Debt Service Requirements for Revenue Bonds

(amounts in thousands)

Year Ending June 30	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-type Activities		Principal	Interest*
	Principal	Interest	Principal	Interest*		
2007	\$ 99,995	\$ 389,952	\$ 920,297	\$ 1,044,941	\$ 1,030,629	\$ 626,908
2008	169,605	385,581	965,594	1,002,833	347,307	594,296
2009	131,765	379,774	1,019,263	962,571	369,113	579,073
2010	135,195	373,785	1,037,531	911,461	408,759	561,301
2011.....	136,710	374,278	1,076,535	857,827	387,886	548,867
2012-2016	581,255	1,772,750	6,001,865	3,455,035	2,068,366	2,415,545
2017-2021	607,615	1,649,223	6,813,003	1,991,312	2,124,610	1,920,759
2022-2026	279,779	1,670,079	3,099,760	775,804	2,187,124	1,403,885
2027-2031	265,844	1,582,005	1,483,835	263,021	2,327,841	883,648
2032-2036	1,620,310	1,216,517	361,835	58,663	1,712,211	388,164
2037-2041	1,635,555	763,887	68,295	4,817	890,664	75,418
2042-2046	1,637,010	279,493	—	—	—	—
Total	\$ 7,300,638	\$ 10,837,324	\$ 22,847,813	\$ 11,328,285	\$ 13,854,510	\$ 9,997,864

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2006.

Table 31 shows debt service requirements as of June 30, 2006, for variable-rate debt included in Table 30, as well as net swap payments, assuming that current interest rates remain the same for their term. As interest rates vary, variable-rate bond interest payments and net swap payments will vary.

Table 31**Schedule of Debt Service and Swap Requirements for Variable-rate Revenue Bonds**

(amounts in thousands)

Year Ending June 30	Primary Government				Discretely Presented Component Units			
	Business-type Activities							
	Principal	Interest*	Interest Rate* Swap Net	Total	Principal	Interest*	Interest Rate* Swap Net	Total
2007	\$ —	\$ 147,000	\$ (11,000)	\$ 136,000	\$ 50,872	\$ 204,629	\$ 25,725	\$ 281,226
2008	—	147,000	(11,000)	136,000	101,323	213,320	18,171	332,814
2009	—	147,000	(11,000)	136,000	112,365	208,562	16,622	337,549
2010	—	147,000	(11,000)	136,000	116,813	203,154	15,967	335,934
2011	—	147,000	(11,000)	136,000	119,938	197,644	15,236	332,818
2012-2016	1,381,000	615,000	(43,000)	1,953,000	712,575	900,425	63,314	1,676,314
2017-2021	2,190,000	190,000	(8,000)	2,372,000	882,037	731,519	47,029	1,660,585
2022-2026	453,000	17,000	—	470,000	983,847	532,124	31,703	1,547,674
2027-2031	—	—	—	—	1,124,094	318,786	18,363	1,461,243
2032-2036	—	—	—	—	765,670	103,734	5,620	875,024
2037-2041	—	—	—	—	172,082	7,245	500	179,827
Total	\$ 4,024,000	\$ 1,557,000	\$ (106,000)	\$ 5,475,000	\$ 5,141,616	\$ 3,621,142	\$ 258,250	\$ 9,021,008

* Based on rates in effect on June 30, 2006.

D. Primary Government Variable Rate/Swap Disclosure

Objective: The Department of Water Resources (DWR) entered into interest-rate swap agreements with various counterparties to reduce variable-interest-rate risk for the Electric Power Fund. The swaps create a synthetic fixed rate. The DWR agreed to make fixed-rate payments and receive floating-rate payments on notional amounts equal to a portion of the principal amount of this variable-rate debt.

Terms and Fair Value: The terms and fair value of the swap agreements entered into by DWR, which became effective February 13, 2003, and December 1, 2005, are summarized in Table 32. The notional amounts of the swaps match the principal amounts of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled amortization of the associated debt. Most swaps had a positive fair value as of June 30, 2006, because interest rates had increased. The fair values were provided by the counterparties using either the par value or the marked-to-market method.

Credit Risk: As of June 30, 2006, DWR was exposed to credit risk of \$142 million because the majority of the swaps had positive fair values. The DWR has a total of 20 swap agreements with 10 different counterparties. Approximating 22% of the total notional value is held with a counterparty that has Moody's Investors Service, Fitch Ratings, and Standard & Poor's (S&P) credit ratings of Aa2, AA, and AA, respectively. Of the remaining swaps, two are held with a single counterparty and approximate 20% of the outstanding notional value; that counterparty has Moody's, Fitch's, and S&P's credit ratings of Aa3, AA-, and AA-, respectively. The remaining

swaps are with separate counterparties, all having Moody's, Fitch's, and S&P's credit ratings of Aa3, A+, and A+, respectively, or better. Table 32 summarizes the credit ratings of the counterparties for the swap agreements.

Table 32**Schedule of Terms, Fair Values, and Credit Ratings of Swap Agreements**

(amounts in thousands)

Swap Termination Date	Outstanding Notional Amount at June 30, 2006	Fair Values at June 30, 2006	Fixed Rate Paid by Electric Power Fund	Variable Rate Received by Electric Power Fund	Counterparty Credit Ratings (Moody's, Fitch's, S&P's)
5/1/2011	\$ 94,000	\$ 3,000	2.914 %	67% of LIBOR	Aaa, AAA, AAA
5/1/2012	234,000	9,000	3.024	67% of LIBOR	Aaa, AAA, AAA
5/1/2013	200,000	3,000	3.405	BMA	Aa3, A+, A+
5/1/2013	100,000	2,000	3.405	BMA	Aa3, AA-, A+
5/1/2013	30,000	—	3.405	BMA	Aa3, AA-, A+
5/1/2014	194,000	3,000	3.204	67% of LIBOR	Aa1, AA-, AA-
5/1/2015	355,000	10,000	3.184	66.5% of LIBOR	Aa3, AA-, AA-
5/1/2015	174,000	6,000	3.280	67% of LIBOR	Aaa, AAA, AAA
5/1/2016	202,000	7,000	3.342	67% of LIBOR	Aa2, AA, AA
5/1/2016	486,000	20,000	3.228	66.5% of LIBOR	Aa2, AA, AA
5/1/2017	202,000	7,000	3.389	67% of LIBOR	Aa3, AA-, A+
5/1/2017	480,000	20,000	3.282	66.5% of LIBOR	A2, AA-, AA-
5/1/2018	514,000	22,000	3.331	66.5% of LIBOR	A3, AA-, AA-
5/1/2020	306,000	13,000	3.256	64% of LIBOR	A3, AA-, AA-
5/1/2022	453,000	22,000	3.325	64% of LIBOR	Aa2, AA, AA-
Total	\$ 4,024,000	\$ 147,000			

Basis Risk: The DWR is exposed to basis risk on the swaps that have payments calculated on the basis of a percentage of LIBOR. The basis risk results from the fact that DWR's floating interest payments payable on the underlying debt are determined in the tax-exempt market, while the DWR floating receipts on the swaps are based on LIBOR, which is determined in the taxable market. Should the relationship between LIBOR and the tax-exempt market change and move to convergence, or should DWR's bonds trade at levels worse (higher in rate) in relation to the tax-exempt market, DWR's cost would increase.

In June 2006, DWR entered into the basis swaps, shown in Table 33, effective July 1, 2006, to mitigate this risk and optimize debt service by changing the variable rate received by the Electric Power Fund to a five-year Constant Maturity Swap Index (CMS). The fair values were provided by the counterparties, using the par value or marked-to-market method.

Table 33**Schedule of Terms, Fair Values, and Credit Ratings of Swap Agreements**

(amounts in thousands)

Swap Termination Date	Outstanding Notional Amount at June 30, 2006	Fair Values at June 30, 2006	Variable Rate Paid by Electric Power Fund	Variable Rate Received by Electric Power Fund	Counterparty Credit Ratings (Moody's, Fitch's, S&P's)
5/1/2012	\$ 234,000	\$ (1,000)	67% of LIBOR	62.83% of CMS	Aa2, AA, AA
5/1/2014	194,000	(1,000)	67% of LIBOR	62.70% of CMS	Aa3, AA-, AA-
5/1/2015	174,000	(1,000)	67% of LIBOR	62.60% of CMS	Aa3, A+, A+
5/1/2016	202,000	(1,000)	67% of LIBOR	62.80% of CMS	Aa2, AA, AA
5/1/2017	202,000	(1,000)	67% of LIBOR	62.66% of CMS	Aa3, A+, A+
Total	\$ 1,006,000	\$ (5,000)			

As of June 30, 2006, 67% of LIBOR paid on the basis swaps was equal to 3.58%, while the variable rates received based on the five-year CMS Index varied from 3.59 to 3.61%.

Termination Risk: The DWR's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, DWR or the counterparty may terminate a swap agreement if the other party fails to perform under the terms of the contract or significantly loses creditworthiness. The DWR views the likelihood of either event to be remote at this time. If a termination were to occur, DWR would, at the time of the termination, be liable for payment equal to the swap's fair value, if it had a negative fair value at that time. A termination would mean that DWR's underlying floating-rate bonds would no longer be hedged, and DWR would be exposed to floating rate risk unless it entered into a new hedge.

Rollover Risk: Other than termination, no rollover risk is associated with the swap agreements because the agreements have termination dates and notional amounts that are tied to equivalent maturity dates and principal amounts of amortizing debt.

E. Discretely Presented Component Unit Variable Rate/Swap Disclosure—University of California

Table 31 includes debt service requirements and net swap payments as of June 30, 2006, of the University of California (UC), a discretely presented component unit. Total principal, variable interest, and interest rate net swap payments are \$340 million, \$144 million, and negative \$11 million, respectively.

Objective: UC has entered into interest rate swap agreements as a means to lower borrowing costs, rather than using fixed-rate bonds at the time of issuance, and to effectively change the variable interest rate on bonds to a fixed rate of 3.1%. The swaps were made with three financial institutions in connection with variable-rate refunding revenue bonds associated with the UC Davis Medical Center.

Terms: The bonds and related swap agreements mature on September 1, 2026. The aggregate notional amount of swaps matches the outstanding amounts on the bonds throughout the term of the bonds. UC pays the swap counterparties a fixed payment of 3.1% and receives a variable payment computed as 67% of the 30-day LIBOR. UC believes that, over time, the variable interest rates it pays on the bonds will approximate

the variable payments it receives on the interest rate swaps, leaving the fixed interest rate payment on the swaps as the net payment obligation for the transaction.

Fair Value: The swaps have an estimated positive fair value of \$19 million as of June 30, 2006, because interest rates have increased since the execution of the swaps. The fair value is an indication of the difference in value of the swap fixed-interest payments due and the fixed-rate payments due on a swap with identical terms executed on June 30, 2006. The fair value of the interest rate swap is the estimated amount the UC would have paid if the swap agreement had been terminated on June 30, 2006. The fair value was estimated by the financial institutions using available quoted market prices or a forecast of expected discounted future cash flows.

Basis Risk: UC is exposed to basis risk whenever the interest rates on the bonds are reset. The interest rates on the bonds are tax-exempt interest rates reset weekly or daily, while the variable receipt rate on the interest rate swaps is taxable (67% of the 30-day LIBOR).

Termination and Interest Rate Risk: UC is exposed to losses in the event of nonperformance by counterparties or unfavorable interest rate movements. The swap may be terminated if the insurer's credit quality rating falls below A- as issued by Fitch Ratings or Standard & Poor's, thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, UC may also owe a termination payment if there is a realized loss on the fair value of the swap.

F. Discretely Presented Component Unit Variable Rate/Swap Disclosure—California Housing Finance Agency

Table 31 includes debt service requirements and net swap payments as of June 30, 2006, for the California Housing Finance Agency (CalHFA), a discretely presented component unit. Total principal, variable interest, and interest rate net swap payments are \$4.8 billion, \$3.5 billion, and \$270 million, respectively.

Objective: CalHFA has entered into interest rate swap agreements with various counterparties to protect itself against rising rates by providing a synthetic fixed rate for a like amount of variable-rate bond obligations. The majority of CalHFA's interest rate swap transactions are structured to pay a fixed rate of interest while receiving a variable rate of interest, with some exceptions. CalHFA previously entered into swaps at a ratio of 65% of LIBOR. Its current formula (60% of LIBOR plus a spread, currently .26%) results in comparable fixed-rate economics but performs better when short-term rates are low and the BMA/LIBOR percentage is high. CalHFA has used this new formula since December 2002, and the agency expects to continue to use this formula for LIBOR-based swaps exclusively. In addition, CalHFA entered into 13 basis swaps as a means to change the variable-rate formula received from counterparties for \$651 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: Most of CalHFA's notional amounts of the swaps match the principal amounts of the associated debt. CalHFA has created a synthetic fixed rate by swapping a portion of its variable rate debt. CalHFA did not pay or receive any cash when the swap transactions were initiated. CalHFA utilizes 11 counterparties for its interest-rate swap transactions. Counterparties are required to collateralize their exposure to CalHFA when their credit ratings fall from AA to the highest single-A category, A1/A+. CalHFA is not required to provide collateralization until its ratings fall to the mid-single-A category, A2/A. CalHFA's swap portfolio has an aggregate negative fair value, due to a decline in interest rates, of \$28 million as of June 30, 2006. Fair values are as reported by CalHFA's counterparties and are estimated using the zero-coupon method. As CalHFA's swap portfolio has an aggregate negative fair value, CalHFA is not exposed to credit risk. However, if interest rates rise, the negative fair value of the swap portfolio would be

reduced and could eventually become positive. At that point, CalHFA would become exposed to the counterparties' credit because the counterparties would be obligated to make payments to CalHFA in the event of termination. CalHFA has 129 swap transactions, with outstanding notional amounts of \$4.9 billion. Standard & Poor's credit ratings for these counterparties range from A+ to AAA; Moody's credit ratings range from Aa3 to Aaa.

Basis Risk: CalHFA's swaps contain the risk that the floating-rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices that consist of market-wide averages, while interest paid on CalHFA's variable-rate bonds is specific to individual issues. CalHFA's variable-rate tax-exempt bonds trade at a slight discount to the BMA index. Swaps associated with tax-exempt bonds, for which CalHFA receives a variable-rate payment, are based on a percentage of LIBOR; thus, CalHFA is exposed to basis risk if the relationship between BMA and LIBOR converges. As of June 30, 2006, the BMA rate was 3.97%, 65% of the one-month LIBOR was 3.47%, and 60% of the one-month LIBOR plus 26 basis points was 3.46%.

Termination Risk: Counterparties to CalHFA's interest rate swaps have termination rights that require settlement payments by either CalHFA or the counterparties, based on the fair value of the swap.

Rollover Risk: CalHFA's swap agreements have limited rollover risk because the agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled and anticipated reductions in the associated bonds payable.

G. Revenue Bond Defeasances

1. Current Year—Governmental Activities

In August 2005, the GSTSC issued Enhanced Tobacco Settlement Asset-Backed Bonds to advance-refund \$2.6 billion in outstanding bonds. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. Also, proceeds totaling \$525 million were transferred to the State's general fund. Generally accepted accounting principles require disclosure of the economic gain or loss on advance refunding transactions. For this transaction, the State's Department of Finance indicates that no calculation of the economic gain or loss was performed because the debt service before the refunding and after the refunding were based on different sums of bonds as there was legislative authorization to extend the years of maturities that were financed.

In October 2005, the primary government issued \$25 million in California State University Systemwide Revenue Bonds to advance-refund \$26 million of the California State University Building Authority's outstanding lease revenue bonds. As a result, the refunded bonds are considered defeased and the liability for these bonds has been removed from the Building Authority's financial statements. The liability for the new bonds is included in the nonmajor enterprise fund financial statements. For a complete description of the refunding bonds issued, refer to the Current Year—Business-type Activities section below.

In December 2005, the San Francisco State Building Authority issued \$201 million in lease revenue refunding bonds to advance refund \$228 million in outstanding bonds. The net proceeds, together with other available monies, were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The refunding will reduce debt service payments by \$49 million over the next 17 years and resulted in an economic gain of \$10 million.

In December 2005, the Oakland State Building Authority issued \$28 million in lease revenue refunding bonds to advance refund \$37 million in outstanding bonds. The net proceeds, together with other available monies, were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The refunding will reduce debt service payments by \$14 million over the next 17 years and resulted in an economic gain of \$1.2 million.

2. Current Year—Business-type Activities

In July 2005, the primary government issued \$112 million in Central Valley Project Water System Revenue Bonds, of which a portion of the proceeds was used to defease \$105 million in outstanding bonds. The advance refunding resulted in the recognition of an accounting loss of approximately \$5 million for fiscal year 2006. The primary government used the issuance of the Series AD bonds to provide debt service savings of approximately \$11 million over the next 25 years, with a net present value of \$6 million.

In August and October 2005, the primary government issued California State University Systemwide Revenue Refunding Bonds to defease certain outstanding California State University Housing System Revenue Bonds, Student Union Revenue Bonds, Parking Systemwide Revenue Bonds, Systemwide Revenue Bonds, and Headquarters Building Authority lease revenue bonds discussed in the Current Year—Governmental Activities section above. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The refunding will reduce debt service payments by \$1 million over the life of the bonds and will result in an economic gain of \$11 million.

In December 2005, the primary government issued \$2.6 billion in variable-rate refunding revenue bonds to advance refund \$2.4 billion in outstanding bonds. The advance refunding resulted in the recognition of an accounting loss of approximately \$218 million, which has been deferred over the life of the refunded debt. The primary government used the issuance of the Series F and G bonds to provide debt service savings of approximately \$278 million through 2022, with a net present value of \$145 million.

During the year ended June 30, 2006, the primary government issued \$470 million in lease revenue refunding bonds to advance refund \$478 million in outstanding bonds. The primary government used the advance refunding to provide debt service savings of approximately \$50 million over the next 14 to 18 years, with a net present value of \$37 million.

3. Current Year—Discretely Presented Component Units

In July 2005, the University of California, a discretely presented component unit, issued \$558 million in General Revenue Bonds; a portion of the proceeds from these bonds was used to refund \$482 million in outstanding bonds. The university used the issuance of the bonds to provide debt service savings of approximately \$7 million through 2035, with a net present value of \$26 million. In April 2006, the Student Housing LLC, a legally separate, non-profit corporation included in the university's financial reporting entity, issued \$99 million in Student Housing Refunding Revenue Bonds to refund \$95 million in outstanding bonds. The LLC used the issuance of the bonds to provide debt service savings of approximately \$8 million through 2038, with a net present value of nearly \$4 million.

In November 2005, CalHFA, a discretely presented component unit, issued Multifamily Housing Revenue Bonds; a portion of the proceeds from these bonds was used to refund outstanding bonds. The loss from the debt refunding was deferred and will be amortized as a component of interest expense over the term of bonds extinguished or the term of the refunding bonds, whichever is shorter. The refunding will decrease the debt

service cash outflow for Multifamily Programs by approximately \$5 million. The refunding may also provide for an economic gain estimated to be approximately \$8 million for the Multifamily Programs.

4. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2006, the outstanding balance of revenue bonds defeased in prior years was approximately \$468 million.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds. Investments that have maturities and interest rates sufficient to fund retirement of defeased liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2006, the outstanding balance of University of California revenue bonds defeased in prior years was \$940 million.

H. Related Organization Transaction

In April 2006, the Bay Area Toll Authority (BATA), a related organization, issued bonds to defease \$1.2 billion in outstanding Bay Area Toll Bridges Seismic Retrofit Revenue Bonds that were issued by the California Infrastructure and Economic Development Bank. The bonds were secured and payable from the \$1 per vehicle seismic surcharge from all toll-paying vehicles on the Bay Area bridges. However, in 2005 the California Legislature transferred toll administration responsibility, including the State's seismic dollar, from the State to BATA. Before the state-owned seismic dollar could be transferred to BATA, the outstanding Bay Area Toll Bridges Seismic Retrofit Revenue Bonds had to be defeased. Most of the proceeds from the bonds BATA issued were paid to Deutsche Bank National Trust Company to act as escrow agent for the defeased bonds. These proceeds will be invested and used to pay the principal and interest of the Bay Area Toll Bridges Seismic Retrofit Revenue Bonds as they become due. The payment from BATA to the escrow agent is shown as a special item on the government-wide Statement of Activities and the liability for the bonds has been removed from the government-wide Statement of Net Assets.

NOTE 17: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due from other funds and due to other funds represent short-term interfund receivables and payables resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made. Table 34 presents the amounts due from and due to other funds.

Table 34

Schedule of Due From Other Funds and Due To Other Funds

June 30, 2006

(amounts in thousands)

Due From	Due To					
	General Fund	Federal Fund	Transportation Construction Fund	Nonmajor Governmental Funds	Electric Power Fund	Water Resources Fund
Governmental funds						
General Fund.....	\$ —	\$ —	\$ 99,545	\$ 161,154	\$ —	\$ —
Federal Fund.....	558,229	—	1,411,463	451,554	—	—
Transportation Construction Fund .	—	—	—	7,011	—	—
Nonmajor governmental funds	143,961	—	206,717	562,400	—	—
Total governmental funds	702,190	—	1,717,725	1,182,119	—	—
Enterprise funds						
Water Resources Fund	—	—	—	—	—	—
Public Building Construction Fund	25,453	—	—	—	—	—
State Lottery Fund.....	353	—	—	322,910	—	—
Unemployment Programs Fund	15,724	230	—	7,083	—	—
Nonmajor enterprise funds	42,263	—	2,343	1,767	—	—
Total enterprise funds	83,793	230	2,343	331,760	—	—
Internal service funds	8,925	124	27,889	178,295	33,000	5,349
Fiduciary funds	132,420	—	—	62	—	—
Total primary government	\$ 927,328	\$ 354	\$ 1,747,957	\$ 1,692,236	\$ 33,000	\$ 5,349

Due To						
Public Building Construction Fund	State Lottery Fund	Unemployment Programs Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$ —	\$ —	\$ —	\$ —	\$ 129,443	\$ 4,605,656	\$ 4,995,798
—	—	—	—	41,583	3,373,025	5,835,854
—	—	—	—	14,363	—	21,374
253	—	—	6,451	55,787	207,228	1,182,797
253	—	—	6,451	241,176	8,185,909	12,035,823
—	—	—	—	7,549	—	7,549
—	—	—	—	54,395	10,849	90,697
—	—	—	—	—	—	323,263
—	—	—	—	—	—	23,037
25,070	—	—	—	41	—	71,484
25,070	—	—	—	61,985	10,849	516,030
22,538	5,640	36,927	21,278	53,742	15,634	409,341
—	—	—	—	—	268	132,750
\$ 47,861	\$ 5,640	\$ 36,927	\$ 27,729	\$ 356,903	\$ 8,212,660	\$ 13,093,944

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. The \$2.0 billion in nonmajor governmental funds payable from the General Fund is primarily the result of legislation authorizing the transfer of cash from special revenue funds to the General Fund. Table 35 presents the interfund receivables and payables.

Table 35

Schedule of Interfund Receivables and Payables

June 30, 2006

(amounts in thousands)

Interfund Receivables	Interfund Payables						Total
	General Fund	Transportation Construction Fund	Nonmajor Governmental Funds	Water Resources Fund	Nonmajor Enterprise Funds	Fiduciary Funds	
Governmental funds							
General Fund	\$ —	\$ —	\$ 1,960,561	\$ —	\$ —	\$ 1,054,674	\$ 3,015,235
Nonmajor governmental funds ..	13,849	492,900	—	—	—	—	506,749
Total governmental funds ..	13,849	492,900	1,960,561	—	—	1,054,674	3,521,984
Enterprise funds	715	—	—	—	2,246	—	2,961
Internal service funds	3,000	—	1,220	91,517	—	—	95,737
Fiduciary funds	35,341	—	—	—	—	—	35,341
Total primary government	\$ 52,905	\$ 492,900	\$ 1,961,781	\$ 91,517	\$ 2,246	\$ 1,054,674	\$ 3,656,023

Due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made. Table 36 presents the due from primary government and due to component units.

Table 36

Schedule of Due From Primary Government and Due to Component Units

June 30, 2006

(amounts in thousands)

Due From	Due To			Total
	University of California	Public Employees' Benefits	Nonmajor Component Units	
Governmental funds				
General Fund	\$ 90,442	\$ 11	\$ —	\$ 90,453
Nonmajor governmental funds	59,973	—	—	59,973
Total governmental funds	150,415	11	—	150,426
Enterprise funds	12,170	—	—	12,170
Internal service funds	—	5,783	1,123	6,906
Total primary government	\$ 162,585	\$ 5,794	\$ 1,123	\$ 169,502

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B. Interfund Transfers

As required by law, transfers move money collected by one fund to another fund, which disburses it. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfers from the General Fund to the nonmajor governmental funds were \$1.5 billion for the support of trial courts and \$680 million for traffic congestion relief. The \$973 million transfer from the Federal Fund to the nonmajor governmental funds was primarily for the administration of the unemployment program. Table 37 presents interfund transfers of the primary government.

Table 37

Schedule of Interfund Transfers

June 30, 2006

(amounts in thousands)

Transferred From	Transferred To		
	General Fund	Transportation Construction Fund	Nonmajor Governmental Funds
Governmental funds			
General Fund	\$ —	\$ 408,306	\$ 2,795,001
Federal Fund	—	—	973,498
Transportation Construction Fund	—	—	2,108
Nonmajor governmental funds	686,073	79,909	148,171
Total governmental funds	686,073	488,215	3,918,778
Enterprise funds			
Public Building Construction Fund.....	6,584	—	—
Nonmajor enterprise funds	31,681	—	4,808
Total enterprise funds	38,265	—	4,808
Internal service funds	1,186	—	465
Fiduciary funds	105	—	—
Total primary government	\$ 725,629	\$ 488,215	\$ 3,924,051

Transferred To				
Unemployment Programs Fund	Public Building Construction Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total
\$ —	\$ —	\$ —	\$ 227	\$ 3,203,534
11,944	—	—	—	985,442
—	—	—	—	2,108
—	—	7,870	—	922,023
11,944	—	7,870	227	5,113,107
—	—	—	—	6,584
—	25,070	—	—	61,559
—	25,070	—	—	68,143
—	—	—	—	1,651
—	—	—	—	105
\$ 11,944	\$ 25,070	\$ 7,870	\$ 227	\$ 5,183,006

NOTE 18: FUND DEFICITS AND ENDOWMENTS

A. Fund Deficits

Table 38 shows the funds that had deficits.

Table 38

Schedule of Fund Deficits

June 30, 2006

(amounts in thousands)

	Governmental Funds	Internal Service Funds	Component Units
State-Local Realignment Fund	\$ 1,413	\$ —	\$ —
Higher Education Construction Fund	858,160	—	—
Other capital projects funds	14,376	—	—
Architecture Revolving Fund	—	16,497	—
Public Employees' Benefits Fund	—	—	435,174
California Consumer Power and Conservation Financing Authority Fund	—	—	5,663
Total	\$ 873,949	\$ 16,497	\$ 440,837

B. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net asset categories of the government-wide and fund financial statements. As of June 30, 2006, the total value of restricted and unrestricted endowments and gifts was \$8.8 billion and \$1.2 billion, respectively. The university's policy is to retain appreciation on investments with the endowment after an annual income distribution. Endowment income capitalized to endowment principal that is available to meet future funding needs upon approval by the board of regents amounted to \$1.5 billion at June 30, 2006. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the board of regents.

NOTE 19: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. All claim payments are on a "pay as you go" basis, with workers' compensation benefits for self-insured agencies being initially paid by the State Compensation Insurance Fund. The potential amount of loss arising from risks other than workers' compensation benefits is not considered material in relation to the primary government's financial position.

The discounted liability for unpaid self-insured workers' compensation losses is estimated to be \$2.6 billion as of June 30, 2006. This estimate is based on actuarial reviews of the State's employee workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately \$3.6 billion is discounted to \$2.6 billion using a 4% interest rate. Of the total, \$314 million is a current liability, of which \$197 million is included in the General Fund, \$115 million in the special revenue funds, and \$2 million in the internal service funds. The remaining \$2.3 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Assets.

The University of California, a discretely presented component unit, is self-insured for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable that a loss will occur and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based on an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 4.5% to 6.0%. The other major discretely presented component units do not have significant liabilities related to self-insurance.

Changes in the self-insurance claims liability for the primary government and the University of California are shown in Table 39.

Table 39**Schedule of Changes in Self-Insurance Claims**

Years Ended June 30

(amounts in thousands)

	Primary Government		University of California – Discretely Presented Component Unit	
	2006	2005	2006	2005
Unpaid claims, beginning	\$ 2,807,718	\$ 2,724,835	\$ 561,827	\$ 566,962
Incurred claims	111,023	455,108	213,604	250,264
Claim payments	(342,000)	(372,225)	(251,211)	(255,399)
Unpaid claims, ending	\$ 2,576,741	\$ 2,807,718	\$ 524,220	\$ 561,827

NOTE 20: NONMAJOR ENTERPRISE SEGMENT INFORMATION

A segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets, and liabilities of the activity. All of the activities reported in the following condensed financial information meet these requirements.

Table 40 presents the Condensed Statement of Net Assets; the Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Condensed Statement of Cash Flows for nonmajor enterprise funds that meet the definition of a segment. The primary sources of revenues for these funds follow.

High Technology Education Fund: Rental payments on public buildings that are used for educational and research purposes related to specific fields of high technology.

State University Dormitory Building Maintenance and Equipment Fund: Charges to students for housing and parking, and student fees for campus unions.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

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Table 40**Nonmajor Enterprise Segments**

(amounts in thousands)

Condensed Statement of Net Assets	State University	
June 30, 2006	High Technology Education	Dormitory Building Maintenance and Equipment
Assets		
Due from other funds	\$ 626	\$ 13,665
Due from other governments	—	—
Other current assets	74,485	1,007,429
Capital assets	—	1,862,869
Other noncurrent assets	365,015	17,768
Total assets	\$ 440,126	\$ 2,901,731
Liabilities		
Due to other funds	\$ 25,070	\$ 25,764
Due to other governments	—	—
Other current liabilities	30,216	131,601
Noncurrent liabilities	287,662	2,103,220
Total liabilities	342,948	2,260,585
Net assets		
Investment in capital assets, net of related debt	—	—
Restricted	97,178	441,395
Unrestricted	—	199,751
Total net assets	97,178	641,146
Total liabilities and net assets	\$ 440,126	\$ 2,901,731
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets		
Year Ended June 30, 2006		
Operating revenues	\$ 26,508	\$ 462,484
Depreciation expense	—	(103,600)
Other operating expenses	(30,871)	(388,314)
Operating income (loss)	(4,363)	(29,430)
Nonoperating revenues	—	49,747
Capital contributions	—	—
Transfers in	—	7,410
Transfers out	(25,070)	(4,808)
Change in net assets	(29,433)	22,919
Total net assets, July 1, 2005	126,611	618,227 *
Total net assets, June 30, 2006	\$ 97,178	\$ 641,146
Condensed Statement of Cash Flows		
Year Ended June 30, 2006		
Net cash provided (used) by:		
Operating activities	\$ 38,964	\$ 85,119
Noncapital financing activities	—	2,548
Capital and related financing activities	(36,910)	103,380
Investing activities	—	44,117
Net increase (decrease)	2,054	235,164
Cash and pooled investments at July 1, 2005	50,992	739,896 *
Cash and pooled investments at June 30, 2006	\$ 53,046	\$ 975,060

* Restated

State Water Pollution Control	Housing Loan	Total
\$ 4,560	\$ 5,622	\$ 24,473
163,040	—	163,040
404,984	499,299	1,986,197
—	1,721	1,864,590
1,990,349	1,644,717	4,017,849
\$ 2,562,933	\$ 2,151,359	\$ 8,056,149
\$ 631	\$ —	\$ 51,465
—	765	765
26,942	109,160	297,919
240,551	1,809,503	4,440,936
268,124	1,919,428	4,791,085
—	1,720	1,720
667,281	230,211	1,436,065
1,627,528	—	1,827,279
2,294,809	231,931	3,265,064
\$ 2,562,933	\$ 2,151,359	\$ 8,056,149
\$ 50,390	\$ 124,812	\$ 664,194
—	(807)	(104,407)
(10,487)	(138,181)	(567,853)
39,903	(14,176)	(8,066)
4,410	2,921	57,078
56,942	—	56,942
—	—	7,410
—	—	(29,878)
101,255	(11,255)	83,486
2,193,554	243,186	3,181,578
\$ 2,294,809	\$ 231,931	\$ 3,265,064
\$ 52,871	\$ (45,488)	\$ 131,466
21,683	(48,667)	(24,436)
—	—	66,470
12,006	462	56,585
86,560	(93,693)	230,085
318,323	561,133	1,670,344
\$ 404,883	\$ 467,440	\$ 1,900,429

NOTE 21: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as construction of new facilities and remodeling of existing facilities and acquisition of equipment. This debt is secured solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2006, these component units had \$18.5 billion of debt outstanding, which is not debt of the State.

The State has also entered into transactions that involve debt issued by four special-purpose trusts that were created by one of its nonmajor component units, the California Infrastructure and Economic Development Bank. The special-purpose trusts are legally separate entities that issued long-term debt for the primary purpose of financing certain costs of assets and obligations that are recoverable by utilities through electric rate charges. These costs may prevent the utilities from offering electricity at lower rates in a competitive market. As of June 30, 2006, the special-purpose trusts had approximately \$922 million of debt outstanding. Like the debt of nonmajor component units, the debt of the special purpose trusts is not debt of the State.

NOTE 22: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which normally occur in governmental operations. To the extent they existed, the following were accrued as a liability in the government-wide financial statements: legal proceedings that were decided against the primary government before June 30, 2006; legal proceedings that were in progress as of June 30, 2006, and were settled or decided against the primary government as of February 21, 2007; and legal proceedings having a high probability of resulting in a decision against the primary government as of February 21, 2007, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government.

The primary government is a defendant in *Guillen v. Governor Schwarzenegger*. Petitioners in this certified class action contend that Governor Schwarzenegger's repeal of the Vehicle License Fee offset triggered a cost-of-living adjustment (COLA) increase for all CalWORKs beneficiaries pursuant to Welfare and Institutions Code section 11453(c)(3). The COLA amounts to approximately \$10 million per month from October 2003 to the present. In addition, petitioners seek prejudgment interest. The superior court denied respondents' petition and entered judgment for the State. Although the State prevailed in the Court of Appeal, a petition to review will likely be filed.

The primary government is a defendant in *Northwest Energetic Services, LLC v. Franchise Tax Board*. The primary issue in this case is whether a fee imposed pursuant to Revenue and Taxation Code section 17942 on

a limited liability company (LLC) that is registered in the state, but does not conduct any business in the state, is unconstitutional because it is measured by the LLC's "total income from all sources reportable to the state." Northern Energetic Services alleges that assessing a fee measured by all of its income violates its due process and equal protection rights as well as the Commerce Clause of the United States Constitution. *Ventas Finance I LLC v. Franchise Tax Board* raises the same issues, but unlike Northwest, Ventas did conduct some business in the state. Both trial courts found the fees to be unconstitutional. Franchise Tax Board is appealing. Although the refunds of fees in these cases are less than \$100,000, the State imposed \$218 million in fees on LLCs in 2003. There has been 14% annual growth in the fees since 2003, which means that the potential refund-exposure exceeds \$1.0 billion if the cases are adversely decided on appeal. To date more than 20,000 claims have been filed for more than \$300 million.

A test claim filed on behalf of all California counties, based on a precedential County of San Diego case, regarding certain unreimbursed costs for the care of medically indigent adults (MIAs) is now pending before the Commission on State Mandates. In recent years, counties have collectively received approximately \$1.0 billion annually in vehicle license fee revenue and \$410 million annually in sales tax revenue to fund various public health programs, which include programs that provide services to MIAs; however, the county claims that funding is inadequate to cover all services to MIAs mandated by the State. The county's test claim poses a potential for a negative impact on the General Fund in the amount of the unreimbursed costs for all similarly situated county claimants for a period of years, as determined by the commission. The amount demanded by San Bernardino County for the 2000-01 fiscal year alone is over \$9 million. Certain estimates of the annual cost of services rendered by all counties to MIAs exceed \$4.0 billion. It is difficult to determine how much could be recovered by the counties because each situation is fact-driven and lack of documentation was a major concern in the County of San Diego case.

The University of California (UC), the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA) and nonmajor discretely presented component units are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. Although there are inherent uncertainties in any litigation, the management and the general counsel of UC, SCIF, and CalHFA are of the opinion that the outcome of such matters either will not have a material effect on the financial statements or cannot be estimated at this time.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, UC, and CalHFA are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, UC, and CalHFA may incur a liability to the federal government.

NOTE 23: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements. The pension liability for all pension and other employee benefit trust funds was determined in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. The amounts of the pension liability for all pension and other employee benefit trust funds are presented in Table 42 as the net pension obligation (NPO) as of June 30, 2006. The investments of these fiduciary component units are presented in Table 6 in Note 3, Deposits and Investments.

CalPERS administers five defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), the Legislators' Retirement Fund (LRF), and the Volunteer Firefighters' Length of Service Award Fund (VFF). CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the public employee Replacement Benefit Fund (RBF), and the public employee Supplemental Contributions Program Fund (SCPF). CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS website at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Member contributions are recognized when due. The VFF, the SPOFF, and the RBF are funded only by employer contributions that are recorded when due, and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due, in accordance with the terms of each plan.

CalSTRS administers three defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program, and the Cash Balance Benefit Program. CalSTRS also offers, through a third-party administrator, a defined contribution plan that meets the requirements of Internal Revenue Code Section 403(b). The Teachers' Health Benefits Fund provides post-employment health benefits to retired members of the DB Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due and when the employer or the primary government has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the PERF, which is an agent multiple-employer defined benefit retirement plan. Employers participating in the PERF include the primary government and certain discretely presented component units, 61 school employers, and 1,483 public agencies as of June 30, 2006. For reporting purposes, the financial information of the RBF is combined with that of the PERF.

The amount by which the actuarial accrued liability exceeded the actuarial value of assets in the PERF for the primary government and other participating agencies was \$26.6 billion at June 30, 2005. This is a result of the difference between the actuarial value of assets of \$183.7 billion and the actuarial accrued liability of \$210.3 billion. Contributions are actuarially determined.

2. Employer's Information

Plan Description: The primary government and certain discretely presented component units contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The discretely presented component units' participation in the PERF is not a material

portion of the program. The primary government employees served by the PERF include: first-tier and second-tier miscellaneous and industrial employees, California Highway Patrol employees, peace officers and firefighters, and other safety members. The payroll for primary government employees covered by the PERF in the year ended June 30, 2006, was approximately \$13.6 billion.

All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years, or after ten years for second-tier employees. The PERF provides death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding Policy: Benefits are funded by contributions from members and the primary government and earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formula. The primary government contribution rates are determined by periodic actuarial valuations.

Employees, with the exception of employees in the second-tier plans and the State's Alternative Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of \$133 to \$863. Employees' required contributions vary from 5.0% to 8.0% of their salary over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance. The required employer contribution rates for the primary government are shown in Table 41.

Table 41

Schedule of Required Employer Contribution Rates for the Primary Government by Member Category

Year Ended June 30, 2006

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	9.927 %	5.903 %	0.112 %	15.942 %
Second tier	9.875	5.903	0.112	15.890
Industrial (first and second tier).....	13.870	3.164	0.113	17.147
California Highway Patrol	15.210	11.122	0.064	26.396
Peace officers and firefighters	17.478	6.029	0.056	23.563
Other safety members	14.994	3.932	0.100	19.026

For the year ended June 30, 2006, the annual pension cost (APC) and the amount of contributions made by the primary government were each \$2.4 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 42. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2005, is also shown in Table 42 for the primary government.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the JRF, which is an agent multiple-employer defined benefit retirement plan. The JRF membership includes justices of the Supreme Court and courts of appeal, as well as judges of superior courts, appointed or elected prior to November 9, 1994. There are 59 employers participating in the JRF for the year ended June 30, 2006. The payroll for employees covered by the JRF for the year ended June 30, 2006, was approximately \$122 million. The primary government pays the employer contributions for all employees covered by the JRF.

The JRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF provides death, disability, and survivor benefits. Benefits for the JRF are established by the Judges' Retirement Law.

Funding Policy: The contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2006, the required member rate for the JRF was 8.0%.

The contributions of the primary government to the JRF are not actuarially determined. Contributions are determined by state statute. As of June 30, 2006, employer contributions are required to be 8.0% of applicable member compensation. Other funding to meet benefit payment requirements of the JRF is currently provided by: filing fees, which require varying amounts, depending on fee rate and number of filings; investments, which earn the current yield on short-term investments; and the primary government's balancing contributions, as required by the Judges' Retirement Law. The balancing contributions are an amount at least equal to the estimated benefits payable during the ensuing fiscal year, less the sum of the estimated member contributions during the ensuing fiscal year and net assets available for benefits at the beginning of the fiscal year ("pay as you go" basis).

The annual pension cost (APC) and the amount of employer contributions made to the JRF for the year ended June 30, 2006, were \$189 million and \$121 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 2006, was \$1.19 billion, an increase of \$68 million over last year's balance of \$1.13 billion. The APC is comprised of \$195 million for the annual required contribution (ARC), \$79 million for interest on the NPO, and \$85 million for the adjustment to the ARC. An actuarial valuation of the JRF's assets and liabilities is made annually. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 42. Information on the last valuation, which was performed as of June 30, 2005, is shown in Table 42. The aggregate cost method that was used for the June 30, 2005, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 42.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the JRF II, which is an agent multiple-employer defined benefit retirement plan. The membership of the JRF II includes justices of the same courts covered by the JRF who were appointed or elected on or subsequent to November 9, 1994. There are 59 employers participating in the JRF II. The payroll for employees covered by the JRF II for the year ended June 30, 2006, was approximately \$121 million. The primary government pays the employer contributions for all employees covered by the JRF II.

The JRF II provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF II provides death, disability, and survivor benefits. Benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding Policy: The required contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2006, the required member rate for the JRF II was 8.0%, and the primary government's contribution rate for the JRF II was 19.85% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated primary government contribution rate is adjusted periodically as part of the annual Budget Act, in order to maintain or restore the actuarial soundness of the fund.

For the year ended June 30, 2006, the annual pension cost (APC) and the amount of contributions made for the JRF II were approximately \$24 million. The APC and the percentage of APC contributed for the year ended June 30, 2006, are shown in Table 42. Information on the last valuation, which was performed as of June 30, 2005, is also shown in Table 42.

D. Legislators' Retirement Fund

Plan Description: CalPERS administers the LRF, which is a single-employer defined benefit retirement plan. The eligible membership of the LRF includes state legislators serving in the legislature prior to November 1, 1990, constitutional officers, and legislative statutory officers. The payroll for the employees covered by the LRF for the year ended June 30, 2006, was approximately \$2 million.

The LRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The plan provides death, disability, and survivor benefits. Benefits for the LRF are established by the Legislators' Retirement Law.

The LRF is currently in transition. The number of legislators eligible to participate in the LRF is declining as incumbent legislators leave office and are replaced by new legislators who are not eligible to participate in the program. Eventually, the only active members in the LRF will be approximately 16 constitutional officers (including the Insurance Commissioner and members of the Board of Equalization) and approximately four legislative statutory officers.

Funding Policy: The employer contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Member contribution rates are defined by law. For the year ended June 30, 2006, contributions made by employees were not required because the plan was superfunded. By definition, "superfunded" means that the plan's actuarial value of assets exceeds the present value of future benefits for current members. However, some members made contributions towards military service and prior service.

The net pension obligation (NPO) of the LRF on June 30, 2006, was approximately \$10 million. There was no annual pension cost (APC) because the annual required contribution (ARC) equaled zero and the interest on the NPO closely approximated the adjustment to the ARC. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 42. An actuarial valuation of the LRF's assets and liabilities is made annually. Information on the last valuation, which was performed as of June 30, 2005, is also shown in Table 42. The aggregate cost method that was used for the June 30, 2005, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 42.

E. Volunteer Firefighters' Length of Service Award Fund

Plan Description: CalPERS administers the VFF, which is an agent multiple-employer defined benefit retirement plan. The VFF membership includes volunteer firefighters. There were 54 fire departments participating in the VFF for the year ended June 30, 2006.

The actuarial accrued liability of the VFF exceeded the actuarial value of assets by \$439,000 at June 30, 2005. This is a result of the difference between the actuarial accrued liability of \$3.7 million and the actuarial value of assets of \$3.2 million. Contributions are actuarially determined.

F. State Peace Officers' and Firefighters' Defined Contribution Plan Fund

Plan Description: CalPERS administers the SPOFF, which is a defined contribution pension plan. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal Revenue Code, and it is intended to supplement the retirement benefits provided by the Public Employees' Retirement Fund to eligible correctional employees employed by the State of California.

Funding Policy: Contributions to the plan are funded entirely by the primary government with a contribution rate of 2% of the employee's base pay, not to exceed contribution limits established by the Internal Revenue Code. Contribution requirements are established and may be amended through a memorandum of understanding from the State of California Department of Personnel Administration. As a result of negotiation provisions in the bargaining unit contract, the State suspended monthly contributions for rank and file employees and only continued contributions for managers and supervisors. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the participant's account. For the year ended June 30, 2006, contributions by the primary government to the SPOFF were approximately \$8.9 million.

The net earnings of the fund are allocated to the participant's account as of each valuation date, in the ratio that the participant's account balance bears to the aggregate of all participants' account balances. The benefit paid to a participant will depend only on the amount contributed to the participant's account and earnings on the value of the participant's account. Plan provisions are established by and may be amended by statute. At June 30, 2006, 34,485 participants belonged to the SPOFF.

G. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. The STRP is comprised of three programs: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit Program. The STRP is a cost-sharing, multiple-employer, defined benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. At June 30, 2006, the DB Program had approximately 1,350 contributing employers and as of June 30, 2005, had 574,676 active and inactive program members and 201,241 benefit recipients. The primary government is a nonemployer contributor to the DB Program. The payroll for employees covered by the DB Program for the year ended June 30, 2006, was approximately \$24.9 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the balance of member accounts. Vesting occurs immediately. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

The CB Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Participation in the CB Program is optional to employers. However, if the employer elects to offer the CB Program, each eligible employee will automatically be covered by the CB Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire. At June 30, 2006, the CB Program had 30 contributing school districts and 24,679 contributing participants.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program contribution rate of members is 6% of creditable compensation through December 31, 2010, increasing to 8% thereafter for service less than or equal to one year of creditable service per fiscal year. The employer contribution rate is 8.25% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the employer contribution rate is 0.25%. In fiscal year 2005-06, the General Fund contribution was 2.017% of total creditable compensation of the fiscal year ending in the prior calendar year. Education Code 22955(b) states that the General Fund will contribute additional quarterly payments at a contribution rate of 0.524% of creditable earnings of the fiscal year ending in the immediately preceding calendar year when there is an unfunded obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions, which equal 16.00% of creditable compensation. Based on the most recent actuarial valuation, as of June 30, 2005, there is no normal cost deficit or an unfunded obligation for benefits in place as of July 1, 1990. Therefore, the General Fund is not required to contribute quarterly payments starting October 1, 2006, at a contribution rate of 0.524%.

The DBS Program member contribution rate is 2% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the member contribution rate is 8% and the employer rate is 8%.

For the year ended June 30, 2006, the annual pension cost (APC) for the DB Program was approximately \$3.8 billion; the employer and primary government contributions were approximately \$2.1 billion and \$348 million, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 42. Actuarial valuations of the DB Program are performed at least biennially. Information from the last valuation is shown in Table 42.

H. CalSTRS Voluntary Investment Program

Plan Description: CalSTRS administers the Voluntary Investment Program (VIP), a 403(b) program, through a third-party administrator. The VIP is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary; however, the Internal Revenue Code does impose a

maximum amount that can be contributed annually. At June 30, 2006, the VIP had 448 participating employers (school districts) and 3,629 plan members.

I. Teachers' Health Benefits Fund

Plan Description: CalSTRS administers the Teachers' Health Benefits Fund (THBF), which was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435), to provide the Medicare Premium Payment Program for eligible retired members of the DB Program. At June 30, 2006, there were 6,087 benefit recipients.

Funding Policy: The THBF is funded as needed from the monthly DB Program statutory employer contribution that exceeds the amount needed to finance the liabilities of the DB Program based on the June 30, 2000, valuation of the DB Program.

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Table 42**Actuarial Information – Pension Trusts – Primary Government**

Valuation Date As Indicated

	Public Employees' Retirement Fund	Judges' Retirement Fund	Judges' Retirement II Fund
Last actuarial valuation	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Individual Entry Age Normal	Aggregate Cost	Aggregate Entry Age Normal
Amortization method	Level % of Payroll, Closed	None	Level % of Payroll, Closed
Remaining amortization period	23 to 28 years	None	Average of 29 Years
Asset valuation method	Smoothed Market Value	Market Value	Smoothed Market Value
Actuarial assumption			
Investment rate of return	7.75 %	7.00 %	7.25 %
Projected salary increase	3.25 - 19.95	3.25	3.25
Includes inflation at	3.00	3.00	3.00
Post-retirement benefit increases	2 - 5	3.25	3.00
Annual pension costs (in millions)			
Year ended 6/30/04	\$ 2,121	\$ 191	\$ 19
Year ended 6/30/05	2,480	184	21
Year ended 6/30/06	2,419	189	24
Percent contribution			
Year ended 6/30/04	100 %	57 %	102 %
Year ended 6/30/05	100	69	100
Year ended 6/30/06	100	64	100
Net pension obligation (NPO) (in millions)			
Year ended 6/30/04	—	\$ 1,069	—
Year ended 6/30/05	—	1,127	—
Year ended 6/30/06	—	1,195	—
Funding as of last valuation (in millions)			
Actuarial value – assets	\$ 71,830	N/A	\$ 168
Actuarial accrued liabilities (AAL) – entry age	86,595	N/A	178
Excess of actuarial value of assets over AAL (EAV) (unfunded actuarial accrued liability (UAAL))	(14,765)	N/A	(10)
Covered payroll	13,790	N/A	112
Funded ratio	82.9 %	N/A	94.3 %
EAV (UAAL) as percent of covered payroll	107.1 %	N/A	9.1 %

* The State is a non-employer contributor to the State Teacher's Retirement Defined Benefit Program Fund, a cost-sharing multiple-employer plan. The annual pension cost includes the amount related to both the State and the local government employers. The notion of NPO does not apply to cost-sharing employer plans. According to the provisions of the Education Code, the State and local government employers contributed \$348 million and \$2.1 billion, respectively, for the year ending June 30, 2006. Based on the most recent actuarial valuation, dated June 30, 2005, current statutory contributions are sufficient to fund normal costs but are not expected to be sufficient to amortize the unfunded actuarial obligation. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other experience that may differ from the actuarial assumptions.

Legislators' Retirement Fund	State Teachers' Retirement Defined Benefit Program Fund *
June 30, 2005	June 30, 2005
Aggregate Cost	Entry Age Normal
None	Level % of Payroll, Open
None	Not amortizable
Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
7.00 %	8.00 %
3.25	4.25
3.00	3.25
3.00	2.00
—	\$ 3,410
—	3,709
—	3,821
— %	69 %
—	70
—	64
\$ 10	—
10	—
10	—
N/A	\$121,882
N/A	142,193
N/A	(20,311)
N/A	23,257
N/A	85.7 %
N/A	87.3 %

NOTE 24: POST-RETIREMENT HEALTH CARE BENEFITS

The primary government and certain discretely presented component units provide health care and dental benefits to annuitants of retirement systems to which the primary government contributes as an employer. The discretely presented component units' participation in these plans is not a material portion of the program. To be eligible for these benefits, first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. As of June 30, 2006, approximately 131,000 annuitants were enrolled to receive health benefits and approximately 106,400 annuitants were enrolled to receive dental benefits. In accordance with the California Government Code, the primary government generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the primary government's contribution toward dental insurance costs, the primary government generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The primary government recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits for the year ended June 30, 2006, was approximately \$888 million.

Also, the University of California, a discretely presented component unit, provides to retired employees certain health plan benefits in addition to pension benefits. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive University of California contributions for those benefits. There are approximately 41,000 retirees eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors for the year ended June 30, 2006, was \$211 million.

NOTE 25: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2006, but prior to the date of the auditor's report.

The primary government issued \$1.9 billion in general obligation bonds to retire previously issued commercial paper, to repay internal state loans, and to finance various school, water, park, library, seismic, transportation, and children's hospital projects. The primary government also issued \$359 million in veterans' general obligation bonds to retire previously issued commercial paper and to finance and refinance homes and farms for California military veterans. The primary government also issued revenue anticipation notes of \$1.5 billion that are due to be redeemed in June 2007.

The Regents of the University of California issued \$1.1 billion in General Revenue Bonds to finance and refinance certain facilities and projects of the university. Proceeds were used to refund outstanding Multiple Purpose Project Revenue Bonds, Research Facilities Revenue Bonds, and Certificates of Participation. It also issued \$537 million in Medical Center Pooled Revenue Bonds to finance and refinance certain improvements to each of the five medical centers.

The California State University issued a Revenue Bond Anticipation Note in the amount of \$26 million for a construction project. They also issued \$180 million in capital lease obligations to finance and refinance certain campus construction projects. The California State University Auxiliary Organizations, a discretely presented

component unit, issued \$2 million of commercial paper for capital financing to specific campuses and refinanced \$20 million of outstanding commercial paper for the same capital financing program.

The Department of Veterans Affairs issued \$144 million in Home Purchase Revenue Bonds to refund outstanding bonds which were issued to finance the purchase of homes and farms for California military veterans. The department also issued \$92 million in Home Purchase Revenue Bonds to remarket outstanding variable-rate bonds to convert them to fixed-rate bonds.

The State Public Works Board, an agency whose activities are accounted for as an enterprise fund, issued lease revenue bonds totaling \$467 million for the benefit of the University of California and various state agencies. Of the bond proceeds, \$300 million will be used to refund outstanding lease revenue bonds.

In November 2006, the primary government issued \$31 million in Stem Cell Research and Cures Bond Anticipation Notes to private individuals and philanthropic foundations to finance stem cell research.

In the general election held on November 7, 2006, voters approved the sale of \$42.7 billion in general obligation bonds with the passage of the following five propositions.

- \$19.9 billion for Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006
- \$2.9 billion for Proposition 1C, the Housing and Emergency Shelter Trust Fund Act of 2006
- \$10.4 billion for Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006
- \$4.1 billion for Proposition 1E, the Disaster Preparedness and Flood Prevention Bond Act of 2006
- \$5.4 billion for Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006

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Required Supplementary Information



Schedule of Funding Progress ¹

Public Employees' Retirement Fund - Primary Government

(amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded)		Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
			Actuarial Accrued Liability (UAAL) (a - b)	Funded Ratio (a / b)		
June 30, 2003	\$ 62,515	\$ 74,450	\$ (11,935)	84.0 %	\$ 12,628	(94.5) %
June 30, 2004	67,081	79,800	(12,719)	84.1	12,624	(100.8)
June 30, 2005	71,830	86,595	(14,765)	82.9	13,790	(107.1)

Judges' Retirement Fund II

(amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded)		Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
			Actuarial Accrued Liability (UAAL) (a - b)	Funded Ratio (a / b)		
June 30, 2003	\$ 96,107	\$ 105,116	\$ (9,009)	91.4 %	\$ 87,295	(10.3) %
June 30, 2004	129,153	137,704	(8,551)	93.8	99,005	(8.6)
June 30, 2005	167,556	177,761	(10,205)	94.3	111,767	(9.1)

State Teachers' Retirement Defined Benefit Program ²

(amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded)		Covered Payroll* (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
			Actuarial Accrued Liability (UAAL) (a - b)	Funded Ratio (a / b)		
June 30, 2003	\$ 108,667	\$ 128,104	\$ (19,437)	84.8 %	\$ 22,649	(85.8) %
June 30, 2004	114,094	134,677	(20,583)	84.7	22,591	(91.1)
June 30, 2005	121,882	142,193	(20,311)	85.7	23,257	(87.3)

¹Actuarial valuations for the Judges' Retirement Fund and the Legislators' Retirement Fund are performed using the aggregate actuarial cost valuation method. The schedule of funding progress is not required if this method is used.

²Except for 2004, actuarial valuations are not prepared in even-numbered years. No estimation using actuarial methodology is made in years between valuations.

*Actuarial Accrued Liability and Covered Payroll figures for 2003 and 2004 were revised on an estimated basis in 2006 to reflect data corrections.

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB), Statement No. 34, the State has adopted the Modified Approach as an alternative method to depreciating the cost of its infrastructure (state roadways and bridges). Under the Modified Approach, the State will not report depreciation expense for roads and bridges but will capitalize all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs will be expensed and not capitalized.

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2006, are in the following categories and amounts: state highway infrastructure (completed highway projects), totaling \$55.7 billion; land purchased for highway projects, totaling \$11.3 billion; and infrastructure construction-in-progress (uncompleted highway projects), totaling \$4.6 billion.

Donation and Relinquishment. Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. There were no donations for the fiscal year ending June 30, 2006. Relinquishments for the fiscal year ending June 30, 2006, are \$45 million of state highway infrastructure and \$9 million of infrastructure land.

B. Condition Baselines and Assessments

The State is providing condition assessments starting with the fiscal year ending June 30, 2004, because that was the first year the information was required. In succeeding years, the State will add the previous fiscal years' condition assessments until the most recent and two previous condition assessments are reported, as required by GASB No. 34.

1. Bridges

The State uses the Bridge Health Index — a numerical rating scale from 0% to 100% that utilizes element-level inspection data — to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway Transportation Officials' (AASHTO) "Commonly Recognized Structural Elements Standard."

From a deterioration standpoint, the Bridge Health Index represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value will have a Bridge Health Index of 100%. As a bridge deteriorates over time, it loses asset value as represented by a decline in its Bridge Health Index. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its Bridge Health Index will increase, possibly to 100%.

The State’s established condition baseline and actual Bridge Health Index for fiscal years 2003-04 through 2005-06 are as follows:

Fiscal Year Ending June 30	Established BHI Condition Baseline*	Actual BHI Condition
2004	80.0%	94.2%
2005	80.0%	94.3%
2006	80.0%	94.5%

* The actual statewide Bridge Health Index (BHI) should not be lower than the minimum BHI established by the State.

The following table provides details on the State’s actual Bridge Health Index and condition baseline as of June 30, 2006.

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,515	53.75 %	99.9 %
Good	4,462	36.82	96.2
Acceptable	798	6.58	87.1
Fair	188	1.55	75.8
Poor	157	1.30	60.5
Total	12,120	100.00 %	

2. Roadways

The State uses AASHTO “Pavement Performance Data Collection Protocols” in its annual pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways’ pavement condition by the following descriptions.

1. Excellent/good condition – minor or no potholes or cracks.
2. Fair condition – moderate potholes and cracks.
3. Poor condition – significant or extensive potholes or cracks.

Statewide lane miles are considered “distressed lane miles” if they are in either fair or poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The State's established condition baseline and the actual distressed lane miles for fiscal years 2003-04 through 2005-06 are as follows:

Fiscal Year Ending June 30	Established Condition Baseline Distressed Lane Miles (maximum)*	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
2004	18,000	11,824	24.0 %
2005	18,000	12,624	25.5 %
2006	18,000	13,845	27.9 %

* The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

The following table provides details on the pavement condition of the State's roadways as of June 30, 2006.

Pavement Condition	Lane Miles	Distressed Lane Mile
Excellent/Good	35,716	—
Fair	249	249
Poor	13,596	13,596
Total	49,561	13,845

C. Budgeted and Actual Preservation Costs

The State provides only budgeted and actual preservation costs starting with the fiscal year ending June 30, 2004, instead of the last five fiscal years because the information was not previously required by GASB. In succeeding years, the State will add the previous fiscal years' budgeted and actual preservation cost information until the number of fiscal years being reported reaches five, as required by GASB No. 34.

The estimated budgeted preservation costs represents the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represents the cumulative cost to date for the projects approved and work scheduled in each fiscal year.

Fiscal Year Ending June 30	Estimated Budgeted Presevation Costs (in millions)	Actual Preservation Costs (in millions)
2004	\$ 975	\$ 934
2005	\$ 1,049	\$ 983
2006	\$ 2,025	\$ 1,495

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2006
(amounts in thousands)

	General			
	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES				
Corporation tax	\$ —	\$ —	\$ 10,316,467	\$ —
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	—	—	118,021	—
Inheritance, estate, and gift taxes	—	—	3,786	—
Insurance gross premiums tax	—	—	2,202,328	—
Vehicle license fees	—	—	24,878	—
Motor vehicle fuel tax	—	—	—	—
Personal income tax	—	—	50,324,822	—
Retail sales and use taxes	—	—	27,580,980	—
Other major taxes and licenses	—	—	320,697	—
Other revenues	—	—	2,991,110	—
Total revenues	—	—	93,883,089	—
EXPENDITURES				
State and consumer services	549,804	555,205	552,063	3,142
Business and transportation	14,305	1,372,800	1,372,531	269
Resources	1,034,887	1,170,638	1,146,735	23,903
Health and human services	27,202,688	27,473,946	26,421,808	1,052,138
Correctional programs	7,272,348	7,725,069	7,660,778	64,291
Education	43,060,000	46,007,068	45,959,264	47,804
General government:				
Tax relief	2,009,334	2,004,626	2,000,423	4,203
Debt service	3,236,209	3,242,509	3,210,691	31,818
Other general government	3,900,274	3,922,397	3,762,679	159,718
Total expenditures	88,279,849	93,474,258	92,086,972	1,387,286
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	226,271	—
Transfers to other funds	—	—	(269,609)	—
Other additions and deductions	—	—	187,725	—
Total other financing sources (uses)	—	—	144,387	—
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	1,940,504	—
Fund balances (deficits), July 1, 2005 (restated)	—	—	9,315,015	—
Fund balances (deficits), June 30, 2006	\$ —	\$ —	\$ 11,255,519	\$ —

Federal				Transportation Construction			
Budgeted Amounts		Actual Amounts	Variance With Final Budget	Budgeted Amounts		Actual Amounts	Variance With Final Budget
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	40,744,195	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	3,393,381	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	938,560	—
—	—	1,506	—	—	—	243,312	—
—	—	40,745,701	—	—	—	4,575,253	—
29,873	29,873	29,873	—	—	—	—	—
3,308,451	3,308,451	3,308,451	—	4,432,486	4,581,316	4,291,600	289,716
187,441	187,441	187,441	—	12	12	12	—
27,325,179	27,325,179	27,325,179	—	—	—	—	—
22,796	22,796	22,796	—	—	—	—	—
6,949,389	6,949,389	6,949,389	—	980	980	980	—
—	—	—	—	—	—	—	—
—	—	—	—	—	500	284	216
1,144,784	1,144,784	1,144,784	—	2,006,823	1,635,724	1,633,768	1,956
38,967,913	38,967,913	38,967,913	—	6,440,301	6,218,532	5,926,644	291,888
—	—	5,093,589	—	—	—	6,496,797	—
—	—	(6,858,950)	—	—	—	(6,053,938)	—
—	—	(813)	—	—	—	167,351	—
—	—	(1,766,174)	—	—	—	610,210	—
—	—	11,614	—	—	—	(741,181)	—
—	—	(3,061)	—	—	—	3,299,033	—
\$ —	\$ —	\$ 8,553	\$ —	\$ —	\$ —	\$ 2,557,852	\$ —

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2006
(amounts in thousands)

	General	Special Revenue Funds	
		Federal	Transportation Construction
Budgetary fund balance reclassified into			
GAAP statement fund structure	\$ 11,255,519	\$ 8,553	\$ 2,557,852
Basis difference:			
Interfund receivables	52,905		492,900
Loans receivable	99,640	40,986	—
Interfund payables	(1,960,561)	—	—
Escheat property	(1,054,674)	—	—
Other	2,915	—	391,471
Timing difference:			
Liabilities budgeted in subsequent years	(5,722,929)	(15,099)	(70,930)
GAAP fund balance, June 30, 2006	<u>\$ 2,672,815</u>	<u>\$ 34,440</u>	<u>\$ 3,371,293</u>

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule, General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On a budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current-year expenditures for the General Fund, major special revenue funds, and their related appropriations that are legislatively authorized annually, continually, or by project. On a budgetary basis, adjustments for encumbrances are budgeted under other general government, while the encumbrances relate to all programs' expenditures.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Budgetary/Legal Basis Annual Report Supplement*, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2400.121. The Statement of Appropriations, Expenditures, and Balances and the Comparative Statement of Actual and Budgeted Expenditures include the comparison of the annual appropriated budget with expenditures at the legal level of control. The Federal Fund, which is a major special revenue fund, and certain programs of the Transportation Construction Fund are not included in the *Budgetary/Legal Basis Annual Report Supplement* statements

because they are considered fiduciary fund activities on the budgetary basis. A copy of the *Budgetary/Legal Basis Annual Report Supplement* is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250.

Reconciliation of Budgetary Basis With GAAP Basis

The reconciliation of Budgetary Basis fund balances of the General Fund and the major special revenue funds to GAAP Basis fund balances are presented on the previous page and are explained in the following paragraphs.

The beginning fund balances for the General Fund, Federal Fund, and Transportation Construction Fund on the budgetary basis are restated for prior-year revenue adjustments and prior-year expenditure adjustments. A prior-year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior-year expenditure adjustment results when the actual amount paid in the current year differs from the prior-year accrual for appropriations whose ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a \$53 million increase to the fund balance in the General Fund and a \$493 million increase to the fund balance in the Transportation Construction Fund. The adjustments related to loans receivable caused increases of \$100 million in the General Fund and \$41 million in the Federal Fund.

Interfund Payables: Loans received from other funds are normally recorded as revenues on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a \$2.0 billion decrease to the budgetary fund balance in the General Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported in the interfund payables on a GAAP basis. This adjustment caused a \$1.1 billion decrease to the General Fund balance.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused a fund balance increase of \$3 million in the General Fund and \$391 million in the Transportation Construction Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused fund balance decreases of \$5.7 billion in the General Fund, \$15 million in the Federal Fund, and \$71 million in the Transportation Construction Fund. The large decrease in the General Fund primarily consists of \$1.9 billion for deferred apportionment payments to K-12 schools and community colleges, \$805 million of tax amnesty program overpayments, and \$1.4 billion for medical assistance.

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Combining Financial Statements and Schedules – Nonmajor and Other Funds



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Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's tax-supported activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specific purposes.

The **Transportation Safety Fund** accounts for automobile registration fees and other revenues that are used for transportation safety programs.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Environmental and Natural Resources Fund** accounts for fees, bond proceeds, and other revenues that are used for maintaining the state's natural resources and improving the environmental quality of its air, land, and water.

The **Financing for Local Governments and the Public Fund** accounts for fees, bond proceeds, appropriations from the State, and other revenues that are used to finance the construction and maintenance of schools, parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue Fund** accounts for vehicle license fees and a 0.5% state sales tax that are dedicated to local governments for realigning costs from the State to local governments.

The **Unemployment Programs Administration Fund** accounts for transfers from the federal fund, appropriations from the State, penalties, and other revenues that are used to pay for the administration of the Unemployment Insurance Program and related programs.

The **California State University Programs Fund** accounts for student fees and other receipts from gifts, bequests, donations, and federal and state grants and loans that are used for educational programs.

(continued)

(continued)

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance of effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for bond proceeds that are used to purchase Tobacco Revenue Settlements from the State.

The **Economic Recovery Fund** was created for deposit of the proceeds of the Economic Recovery Bonds. The proceeds were transferred to the General Fund after all assurance and administrative costs were paid.

The **Other Special Revenue Programs Fund** accounts for all other proceeds of revenue sources, other than major capital projects that are legally restricted to expenditures for specific purposes.

Debt service funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds.

Capital projects funds are used to account for the financial resources used to acquire or construct major state-owned capital facilities and for capital assistance grants to local governments and public authorities.

The **Prison Construction Fund** accounts for bond proceeds that are used to construct state prisons.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Natural Resources Acquisition and Enhancement Fund** accounts for bond proceeds and various revenues that are used to acquire or improve state parks, beaches, and other recreational areas.

Building authorities are blended component units that are created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

The *California State University Building Authority* is an agreement with the Trustees of the California State University.

The *East Bay Building Authority* is an agreement with the City of Oakland.

The *Los Angeles Building Authority* is an agreement with the Community Redevelopment Agency of the City of Los Angeles.

The *San Francisco Building Authority* is an agreement with the San Francisco Redevelopment Agency of the City and County of San Francisco.

The *Oakland Building Authority* is an agreement with the Oakland Redevelopment Agency.

The *Riverside Building Authority* is an agreement with the County of Riverside and the Riverside County Redevelopment Agency.

The *San Bernardino Building Authority* is an agreement with the City of San Bernardino and the Redevelopment Agency of the City of San Bernardino.

Other capital projects funds account for transactions related to resources obtained and used to acquire or construct other major capital facilities.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2006
(amounts in thousands)

	Special Revenue			
	Transportation Safety	Business and Professions Regulatory and Licensing	Environmental and Natural Resources	Financing for Local Governments and the Public
ASSETS				
Cash and pooled investments	\$ 884,269	\$ 802,142	\$ 1,672,946	\$ 1,118,393
Investments	—	—	—	—
Receivables (net)	26,489	38,686	335,854	8,250
Due from other funds	66,545	21,693	136,185	360,568
Due from other governments	2,092	13,998	14,247	26,007
Interfund receivables	114,000	52,290	519,697	1,095,794
Loans receivable	—	175,344	600,481	860,550
Other assets	10,018	628	196	—
Total assets	\$ 1,103,413	\$ 1,104,781	\$ 3,279,606	\$ 3,469,562
LIABILITIES				
Accounts payable	\$ 52,439	\$ 26,318	\$ 143,467	\$ 1,330,339
Due to other funds	129,839	6,602	95,923	254,385
Due to component units	—	—	928	—
Due to other governments	4,994	3,122	174,669	163,129
Interfund payables	—	—	15,000	477,900
Tax overpayments	—	—	—	—
Deposits	390	450	675	—
Contracts and notes payable	—	—	—	—
Advance collections	10,481	31,137	59,040	192
Interest payable	—	—	—	—
General obligation bonds payable.....	—	—	—	—
Other liabilities	80,394	12,658	8,014	501
Total liabilities	278,537	80,287	497,716	2,226,446
FUND BALANCES				
Reserved for:				
Encumbrances	162,454	216,285	1,640,077	493,282
Interfund receivables	114,000	52,290	519,697	1,095,794
Loans receivable	—	175,344	600,481	860,550
Continuing appropriations	4,193	26,085	940,823	1,197,045
Debt service.....	—	—	—	—
Unreserved, reported in:				
Special revenue funds.....	544,229	554,490	(919,188)	(2,403,555)
Capital projects funds.....	—	—	—	—
Total fund balances (deficits)	824,876	1,024,494	2,781,890	1,243,116
Total liabilities and fund balances	\$ 1,103,413	\$ 1,104,781	\$ 3,279,606	\$ 3,469,562

Special Revenue

Cigarette and Tobacco Tax	Local Revenue	Unemployment Programs Administration	California State University Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Economic Recovery	Other Special Revenue Programs
\$ 704,338	\$ 486,604	\$ 152,827	\$ 218,450	\$ 1,384,336	\$ 168,559	\$ —	\$ 2,061,419
—	—	—	648,451	247,609	503,594	—	—
65,641	116,136	70,097	164,809	220,618	1,181	—	287,648
7,266	28,337	288,406	12,091	6,095	—	—	695,026
201	38,761	1,821	3,115	56,122	—	—	23,084
—	—	—	—	30,000	—	—	150,000
—	—	—	111,023	—	—	—	76,480
—	—	6,289	11,596	46,435	—	—	202
\$ 777,446	\$ 669,838	\$ 519,440	\$ 1,169,535	\$ 1,991,215	\$ 673,334	\$ —	\$ 3,293,859
\$ 110,333	\$ 294	\$ 158,215	\$ 73,025	\$ 188,609	\$ 69	\$ —	\$ 547,835
100,835	79,121	29,168	42,098	1,736	—	—	15,641
57,059	—	—	—	—	—	—	1,986
85,020	591,836	85,835	953	113,693	—	—	429,049
—	—	—	—	—	—	—	13,849
—	—	7,049	—	—	—	—	—
—	—	—	6,815	195,744	—	—	10,993
—	—	—	28,196	—	—	—	14,000
—	—	—	135,454	1,165	—	—	43,730
—	—	—	—	—	27,057	—	—
—	—	—	—	—	—	—	—
—	—	10,472	13,169	483,898	—	—	29,000
353,247	671,251	290,739	299,710	984,845	27,126	—	1,106,083
83,117	—	95,905	—	138,201	—	—	149,254
—	—	—	—	30,000	—	—	150,000
—	—	—	111,023	—	—	—	76,480
288,729	—	—	—	135,915	—	—	69,104
—	—	—	—	—	—	—	—
52,353	(1,413)	132,796	758,802	702,254	646,208	—	1,742,938
—	—	—	—	—	—	—	—
424,199	(1,413)	228,701	869,825	1,006,370	646,208	—	2,187,776
\$ 777,446	\$ 669,838	\$ 519,440	\$ 1,169,535	\$ 1,991,215	\$ 673,334	\$ —	\$ 3,293,859

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2006
(amounts in thousands)

	Total Nonmajor Special Revenue	Debt Service		
		Economic Recovery Bond Sinking	Prison Construction	Higher Education Construction
ASSETS				
Cash and pooled investments	\$ 9,654,283	\$ 939,553	\$ 424	\$ —
Investments	1,399,654	—	—	—
Receivables (net)	1,335,409	—	—	291
Due from other funds	1,622,212	24,700	48	2,903
Due from other governments	179,448	—	—	—
Interfund receivables	1,961,781	—	—	—
Loans receivable	1,823,878	—	—	—
Other assets	75,364	—	—	—
Total assets	\$ 18,052,029	\$ 964,253	\$ 472	\$ 3,194
LIABILITIES				
Accounts payable	\$ 2,630,943	\$ 34	\$ 217	\$ 355,928
Due to other funds	755,348	—	94	403,687
Due to component units	59,973	—	—	—
Due to other governments	1,652,300	—	—	101,739
Interfund payables	506,749	—	—	—
Tax overpayments	7,049	—	—	—
Deposits	215,067	—	—	—
Contracts and notes payable	42,196	—	—	—
Advance collections	281,199	—	—	—
Interest payable	27,057	178,431	—	—
General obligation bonds payable.....	—	173,540	—	—
Other liabilities	638,106	—	—	—
Total liabilities	6,815,987	352,005	311	861,354
FUND BALANCES				
Reserved for:				
Encumbrances	2,978,575	—	26	10,311
Interfund receivables	1,961,781	—	—	—
Loans receivable	1,823,878	—	—	—
Continuing appropriations	2,661,894	6,327	485	—
Debt service.....	—	605,921	—	—
Unreserved, reported in:				
Special revenue funds.....	1,809,914	—	—	—
Capital projects funds.....	—	—	(350)	(868,471)
Total fund balances (deficits)	11,236,042	612,248	161	(858,160)
Total liabilities and fund balances	\$ 18,052,029	\$ 964,253	\$ 472	\$ 3,194

Capital Projects

Natural Resources Acquisition and Enhancement	Building Authorities					
	California State University	East Bay	Los Angeles	San Francisco	Oakland	Riverside
	\$ 22,350	\$ 10,814	\$ 18,068	\$ 25,509	\$ 23,422	\$ 6,680
—	—	—	—	—	—	—
—	100	—	—	—	—	—
17,916	—	1,962	6,497	9,214	2,738	364
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
\$ 40,266	\$ 10,914	\$ 20,030	\$ 32,006	\$ 32,636	\$ 9,418	\$ 1,400
\$ 11,227	\$ 4,489	\$ —	\$ —	\$ —	\$ —	\$ —
543	6,425	—	—	181	488	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
82	—	—	4	—	—	—
—	—	780	1,315	1,457	1,432	143
—	—	—	—	—	—	—
—	—	—	—	—	—	—
11,852	10,914	780	1,319	1,638	1,920	143
22,913	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
34,634	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(29,133)	—	19,250	30,687	30,998	7,498	1,257
28,414	—	19,250	30,687	30,998	7,498	1,257
\$ 40,266	\$ 10,914	\$ 20,030	\$ 32,006	\$ 32,636	\$ 9,418	\$ 1,400

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2006
(amounts in thousands)

	Capital Projects			
	Building Authorities		Total	
	San Bernardino		Other Capital Projects	Nonmajor Capital Projects
ASSETS				
Cash and pooled investments	\$ 8,255	\$ —	\$ 116,558	\$ 10,710,394
Investments	—	—	—	1,399,654
Receivables (net)	—	—	391	1,335,800
Due from other funds	1,587	2,095	45,324	1,692,236
Due from other governments	—	—	—	179,448
Interfund receivables	—	—	—	1,961,781
Loans receivable	—	—	—	1,823,878
Other assets	—	—	—	75,364
Total assets	\$ 9,842	\$ 2,095	\$ 162,273	\$ 19,178,555
LIABILITIES				
Accounts payable	\$ —	\$ 440	\$ 372,301	\$ 3,003,278
Due to other funds	—	16,031	427,449	1,182,797
Due to component units	—	—	—	59,973
Due to other governments	—	—	101,739	1,754,039
Interfund payables	—	—	—	506,749
Tax overpayments	—	—	—	7,049
Deposits	—	—	—	215,067
Contracts and notes payable	—	—	—	42,196
Advance collections	—	—	86	281,285
Interest payable	221	—	5,348	210,836
General obligation bonds payable.....	—	—	—	173,540
Other liabilities	—	—	—	638,106
Total liabilities	221	16,471	906,923	8,074,915
FUND BALANCES				
Reserved for:				
Encumbrances	—	69,531	102,781	3,081,356
Interfund receivables	—	—	—	1,961,781
Loans receivable	—	—	—	1,823,878
Continuing appropriations	—	—	35,119	2,703,340
Debt service.....	—	—	—	605,921
Unreserved, reported in:				
Special revenue funds.....	—	—	—	1,809,914
Capital projects funds.....	9,621	(83,907)	(882,550)	(882,550)
Total fund balances (deficits)	9,621	(14,376)	(744,650)	11,103,640
Total liabilities and fund balances	\$ 9,842	\$ 2,095	\$ 162,273	\$ 19,178,555

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2006 (amounts in thousands)	Special Revenue			
	Transportation Safety	Business and Professions Regulatory and Licensing	Environmental and Natural Resources	Financing for Local Governments and the Public
REVENUES				
Personal income taxes	\$ —	\$ —	\$ —	\$ 894,983
Sales and use taxes	—	—	—	—
Other taxes	—	65,644	396,991	375,284
Intergovernmental	—	—	—	—
Licenses and permits	1,971,324	164,207	191,582	7,302
Charges for services	395,018	8,317	89,604	2,893
Fees	20,976	599,566	1,703,929	17
Penalties	44,941	9,586	13,576	116
Investment and interest	26,801	35,836	106,860	115,143
Other	6,087	5,329	290,410	206,662
Total revenues	2,465,147	888,485	2,792,952	1,602,400
EXPENDITURES				
Current:				
General government	25,764	384,278	73,055	372,863
Education	1,124	10,957	5,599	3,041,154
Health and human services	2,714	72,941	55,710	176,394
Resources	98,843	40,699	2,828,412	54,415
State and consumer services	95,224	197,423	33,625	11,889
Business and transportation	1,935,176	142,707	9,829	695,997
Correctional programs	—	—	—	10
Capital outlay	—	—	210,306	—
Debt service:				
Bond and commercial paper retirement	—	—	901,547	2,463,240
Interest and fiscal charges	—	—	38,426	92,371
Total expenditures	2,158,845	849,005	4,156,509	6,908,333
Excess (deficiency) of revenues over (under) expenditures	306,302	39,480	(1,363,557)	(5,305,933)
OTHER FINANCING SOURCES (USES)				
General obligation bonds and commercial paper issued	—	—	1,390,525	5,355,935
Refunding bonds issued	—	—	151,910	1,140,430
Payment to refunding agent	—	—	(151,910)	(1,140,430)
Transfers in	187	29,485	61,956	700,089
Transfers out	(112,443)	(1,046)	(19,662)	(6,138)
Total other financing sources (uses)	(112,256)	28,439	1,432,819	6,049,886
Net change in fund balances	194,046	67,919	69,262	743,953
Fund balances (deficits), July 1, 2005	630,830	956,575	2,712,628 *	499,163
Fund balances (deficits), June 30, 2006	\$ 824,876	\$ 1,024,494	\$ 2,781,890	\$ 1,243,116

* Restated

Special Revenue

Cigarette and Tobacco Tax	Local Revenue	Unemployment Programs Administration	California State University Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Economic Recovery	Other Special Revenue Programs
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	2,813,192	—	—	—	—	—	—
964,684	—	98,448	—	—	—	—	7,975
—	—	—	1,016,872	934,644	—	—	6,704
—	1,696,649	—	—	—	—	—	97,707
53	—	—	—	2,767	—	—	214,998
—	—	—	904,328	43,622	—	—	1,465,030
—	—	102,235	—	205,964	—	—	249,890
23,200	15,435	4,179	29,588	31,702	26,414	25	57,482
27	—	4,660	1,047,774	147,297	370,573	—	1,476,524
987,964	4,525,276	209,522	2,998,562	1,365,996	396,987	25	3,576,310
5,406	851	281	—	2,560,217	—	3,226	1,601,332
53,416	—	—	2,992,244	—	—	—	39,191
837,104	4,558,852	1,147,866	—	—	—	—	1,707,126
14,991	—	—	—	—	—	—	64,697
—	—	—	—	184	—	—	258,376
—	—	—	—	—	—	—	57,347
—	—	—	—	—	—	—	1,464
—	—	—	—	3,396	—	—	—
—	—	—	—	—	61,320	—	63,495
—	—	—	—	—	339,295	—	10,024
910,917	4,559,703	1,148,147	2,992,244	2,563,797	400,615	3,226	3,803,052
77,047	(34,427)	(938,625)	6,318	(1,197,801)	(3,628)	(3,201)	(226,742)
—	—	—	—	—	—	—	126,990
—	—	—	—	—	3,140,564	—	—
—	—	—	—	—	(2,615,564)	—	—
—	11,861	965,727	41,163	1,506,233	—	—	497,346
(92,725)	—	(34,307)	—	—	(525,000)	(1,125)	(121,167)
(92,725)	11,861	931,420	41,163	1,506,233	—	(1,125)	503,169
(15,678)	(22,566)	(7,205)	47,481	308,432	(3,628)	(4,326)	276,427
439,877	21,153	235,906	822,344	697,938 *	649,836	4,326	1,911,349 *
\$ 424,199	\$ (1,413)	\$ 228,701	\$ 869,825	\$ 1,006,370	\$ 646,208	\$ —	\$ 2,187,776

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2006 (amounts in thousands)	Debt Service			
	Total Nonmajor Special Revenue	Economic Recovery Bond Sinking	Prison Construction	Higher Education Construction
REVENUES				
Personal income taxes	\$ 894,983	\$ —	\$ —	\$ —
Sales and use taxes	2,813,192	1,395,283	—	—
Other taxes	1,909,026	—	—	—
Intergovernmental	1,958,220	—	—	—
Licenses and permits	4,128,771	—	—	—
Charges for services	713,650	—	—	—
Fees	4,737,468	—	—	—
Penalties	626,308	—	—	—
Investment and interest	472,665	25,039	203	22,255
Other	3,555,343	12,960	—	—
Total revenues	21,809,626	1,433,282	203	22,255
EXPENDITURES				
Current:				
General government	5,027,273	19,477	—	—
Education	6,143,685	—	—	—
Health and human services	8,558,707	—	—	—
Resources	3,102,057	—	—	—
State and consumer services	596,721	—	—	—
Business and transportation	2,841,056	—	—	—
Correctional programs	1,474	—	—	—
Capital outlay	213,702	—	1,015	1,107,286
Debt service:				
Bond and commercial paper retirement	3,489,602	1,136,590	1,630	226,895
Interest and fiscal charges	480,116	684,870	165	35,007
Total expenditures	30,454,393	1,840,937	2,810	1,369,188
Excess (deficiency) of revenues over (under) expenditures	(8,644,767)	(407,655)	(2,607)	(1,346,933)
OTHER FINANCING SOURCES (USES)				
General obligation bonds and commercial paper issued	6,873,450	—	1,070	804,390
Refunding bonds issued	4,432,904	—	—	303,540
Payment to refunding agent	(3,907,904)	—	—	(303,540)
Transfers in	3,814,047	—	—	—
Transfers out	(913,613)	(1,000)	—	—
Total other financing sources (uses)	10,298,884	(1,000)	1,070	804,390
Net change in fund balances	1,654,117	(408,655)	(1,537)	(542,543)
Fund balances (deficits), July 1, 2005	9,581,925	1,020,903	1,698	(315,617)
Fund balances (deficits), June 30, 2006	\$ 11,236,042	\$ 612,248	\$ 161	\$ (858,160)

* Restated

Capital Projects							
Natural Resources Acquisition and Enhancement	Building Authorities						
	California State University	East Bay	Los Angeles	San Francisco	Oakland	Riverside	
	\$	\$	\$	\$	\$	\$	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
232	78	705	1,123	1,305	498	42	
4,791	—	—	—	—	228	—	
5,023	78	705	1,123	1,305	726	42	
—	—	—	—	—	—	—	
—	28	—	—	—	—	—	
—	—	—	—	—	—	—	
8,339	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	68	—	—	—	—	
—	—	—	—	—	—	—	
25,137	—	—	288	1,610	—	—	
—	945	7,652	15,275	13,715	4,710	405	
—	223	2,289	7,035	57,148	11,432	603	
33,476	1,196	10,009	22,598	72,473	16,142	1,008	
(28,453)	(1,118)	(9,304)	(21,475)	(71,168)	(15,416)	(966)	
—	—	—	—	—	—	—	
—	—	—	—	201,480	28,340	—	
—	—	—	—	(201,480)	(28,340)	—	
18,588	428	9,943	22,619	48,596	3,961	954	
—	(7,410)	—	—	—	—	—	
18,588	(6,982)	9,943	22,619	48,596	3,961	954	
(9,865)	(8,100)	639	1,144	(22,572)	(11,455)	(12)	
38,279	8,100	18,611	29,543	53,570	18,953	1,269	
\$ 28,414	\$ —	\$ 19,250	\$ 30,687	\$ 30,998	\$ 7,498	\$ 1,257	

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2006 (amounts in thousands)	Capital Projects			
	Building Authorities		Total Nonmajor Capital Projects	Total Nonmajor Governmental
	San Bernardino	Other Capital Projects		
REVENUES				
Personal income taxes	\$ —	\$ —	\$ —	\$ 894,983
Sales and use taxes	—	—	—	4,208,475
Other taxes	—	—	—	1,909,026
Intergovernmental	—	—	—	1,958,220
Licenses and permits	—	—	—	4,128,771
Charges for services	—	—	—	713,650
Fees	—	—	—	4,737,468
Penalties	—	—	—	626,308
Investment and interest	323	6,912	33,676	531,380
Other	—	375	5,394	3,573,697
Total revenues	323	7,287	39,070	23,281,978
EXPENDITURES				
Current:				
General government	—	647	647	5,047,397
Education	—	—	28	6,143,713
Health and human services	—	—	—	8,558,707
Resources	—	—	8,339	3,110,396
State and consumer services	—	—	—	596,721
Business and transportation	—	—	68	2,841,124
Correctional programs	—	—	—	1,474
Capital outlay	—	30,975	1,166,311	1,380,013
Debt service:				
Bond and commercial paper retirement	2,105	47,866	321,198	4,947,390
Interest and fiscal charges	2,746	5,658	122,306	1,287,292
Total expenditures	4,851	85,146	1,618,897	33,914,227
Excess (deficiency) of revenues over (under) expenditures	(4,528)	(77,859)	(1,579,827)	(10,632,249)
OTHER FINANCING SOURCES (USES)				
General obligation bonds and commercial paper issued	—	71,590	877,050	7,750,500
Refunding bonds issued	—	118,125	651,485	5,084,389
Payment to refunding agent	—	(118,125)	(651,485)	(4,559,389)
Transfers in	4,915	—	110,004	3,924,051
Transfers out	—	—	(7,410)	(922,023)
Total other financing sources (uses)	4,915	71,590	979,644	11,277,528
Net change in fund balances	387	(6,269)	(600,183)	645,279
Fund balances (deficits), July 1, 2005	9,234	(8,107)	(144,467)	10,458,361
Fund balances (deficits), June 30, 2006	\$ 9,621	\$ (14,376)	\$ (744,650)	\$ 11,103,640

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Cost Funds*

Year Ended June 30, 2006

(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Cigarette and tobacco taxes	\$ —	\$ 970,192	\$ —
Vehicle license fees	—	2,245,826	—
Personal income tax	—	899,454	—
Retail sales and use taxes	—	7,373,652	—
Other major taxes and licenses	—	1,909,230	—
Other revenues	—	9,384,522	—
Total revenues	—	22,782,876	—
EXPENDITURES			
State and consumer services	698,173	622,108	76,065
Business and transportation	3,573,811	3,097,729	476,082
Resources	2,556,089	2,424,899	131,190
Health and human services	6,231,445	6,176,101	55,344
Correctional programs	2,486	1,205	1,281
Education	1,564,827	1,318,069	246,758
General government	4,069,491	3,820,299	249,192
Total expenditures	18,696,322	17,460,410	1,235,912
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	13,681,516	—
Transfers to other funds	—	(17,511,692)	—
Other additions and deductions	—	1,638,497	—
Total other financing sources (uses)	—	(2,191,679)	—
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	3,130,787	—
Fund balances, July 1, 2005 (restated)	—	5,855,097	—
Fund balances, June 30, 2006	\$ —	\$ 8,985,884	\$ —

* On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds consist of the General Fund and other governmental cost funds into which revenues from taxes, licenses, and fees that support the general operations of the State are deposited. The appropriations of the budgetary basis governmental cost funds form the annual appropriated budget of the State. The nongovernmental cost funds consist of funds that are not subject to annual appropriated budgets and that derive their receipts from sources other than general and special taxes, licenses, fees, or state revenues. Additional information on the budgetary basis of accounting can be found in the Management's Discussion and Analysis, Note 2, Budgetary and Legal Compliance, and the notes to the Required Supplementary Information.

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Internal Service Funds

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Office of Systems Integration Fund** accounts for project management service costs associated with automation projects for the Department of Social Services and the Employment Development Department.

The **Department of Technology Services Fund** accounts for charges for technology services performed for various state departments by the Department of Technology Services.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

The **Equipment Service Fund** accounts for the purchase, maintenance, and administration costs of equipment used by the Department of Transportation.

Other internal service program funds account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Combining Statement of Net Assets

Internal Service Funds

June 30, 2006
(amounts in thousands)

	<u>Architecture Revolving</u>	<u>Service Revolving</u>	<u>Prison Industries</u>
ASSETS			
Current assets:			
Cash and pooled investments	\$ 89,965	\$ 63,903	\$ 76,420
Receivables (net)	724	3,691	481
Due from other funds	104,471	31,728	10,257
Due from other governments	664	13,338	351
Prepaid items	—	30,743	510
Inventories	—	22,639	—
Other assets	—	—	48,375
Total current assets	<u>195,824</u>	<u>166,042</u>	<u>136,394</u>
Noncurrent assets:			
Capital assets:			
Land	—	—	—
Buildings and other depreciable property	736	244,211	133,419
Less: accumulated depreciation	(662)	(155,055)	(86,715)
Construction in progress	—	—	—
Total noncurrent assets	<u>74</u>	<u>89,156</u>	<u>46,704</u>
Total assets	<u>\$ 195,898</u>	<u>\$ 255,198</u>	<u>\$ 183,098</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 34,707	\$ 9,021	\$ 20,479
Due to other funds	839	113,313	—
Due to component units	—	—	—
Due to other governments	—	—	—
Deposits	—	760	—
Contracts and notes payable	—	2,194	—
Advance collections	168,871	9,569	3,687
Current portion of long-term obligations	4,236	2,106	9,553
Other liabilities	3,128	34	—
Total current liabilities	<u>211,781</u>	<u>136,997</u>	<u>33,719</u>
Noncurrent liabilities:			
Interfund payables	—	—	—
Compensated absences payable	—	27,506	—
Capital lease obligations	—	10,015	—
Other noncurrent liabilities	614	14,147	7,360
Total noncurrent liabilities	<u>614</u>	<u>51,668</u>	<u>7,360</u>
Total liabilities	<u>212,395</u>	<u>188,665</u>	<u>41,079</u>
NET ASSETS			
Investment in capital assets, net of related debt	74	68,335	46,704
Unrestricted	(16,571)	(1,802)	95,315
Total net assets (deficit)	<u>(16,497)</u>	<u>66,533</u>	<u>142,019</u>
Total liabilities and net assets	<u>\$ 195,898</u>	<u>\$ 255,198</u>	<u>\$ 183,098</u>

Office of Systems Integration	Department of Technology Services	Water Resources Revolving	Equipment Service	Other Internal Service Programs	Total
\$ 22,239	\$ 52,115	\$ 16,169	\$ 35,651	\$ 245,108	\$ 601,570
10	5,142	17,887	—	121,523	149,458
81,773	69,966	50,273	8,154	281	356,903
—	122	—	—	—	14,475
—	—	15,799	—	188	47,240
—	—	1,008	21,601	—	45,248
—	—	—	—	—	48,375
104,022	127,345	101,136	65,406	367,100	1,263,269
—	—	—	—	231	231
—	143,034	14,713	603,460	6,115	1,145,688
—	(120,140)	(14,713)	(342,411)	(5,149)	(724,845)
—	—	—	—	3,524	3,524
—	22,894	—	261,049	4,721	424,598
\$ 104,022	\$ 150,239	\$ 101,136	\$ 326,455	\$ 371,821	\$ 1,687,867
\$ 47,857	\$ 25,336	\$ 6,157	\$ 4,449	\$ 13,721	\$ 161,727
237	—	462	—	294,490	409,341
—	—	—	—	6,906	6,906
166	—	—	—	5	171
—	—	—	—	—	760
—	6,556	—	—	—	8,750
55,762	96	—	—	—	237,985
—	—	—	4,509	—	20,404
—	72	—	—	17	3,251
104,022	32,060	6,619	8,958	315,139	849,295
—	—	94,517	—	1,220	95,737
—	10,366	—	6,210	—	44,082
—	—	—	—	—	10,015
—	736	—	—	—	22,857
—	11,102	94,517	6,210	1,220	172,691
104,022	43,162	101,136	15,168	316,359	1,021,986
—	18,306	—	261,049	4,721	399,189
—	88,771	—	50,238	50,741	266,692
—	107,077	—	311,287	55,462	665,881
\$ 104,022	\$ 150,239	\$ 101,136	\$ 326,455	\$ 371,821	\$ 1,687,867

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Year Ended June 30, 2006

(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries
OPERATING REVENUES			
Services and sales	\$ 366,230	\$ 754,846	\$ 203,339
Investment and interest	—	—	—
Total operating revenues	366,230	754,846	203,339
OPERATING EXPENSES			
Personal services	30,817	214,459	56,882
Supplies	—	—	2,325
Services and charges	337,473	506,985	132,200
Depreciation	123	16,209	7,879
Interest expense	—	532	—
Total operating expenses	368,413	738,185	199,286
Operating income (loss)	(2,183)	16,661	4,053
NONOPERATING REVENUES (EXPENSES)			
Investment and interest income	—	—	1,189
Interest expense and fiscal charges	—	—	(28)
Other	—	—	(222)
Total nonoperating revenue (expenses)	—	—	939
Income (loss) before capital contributions and transfers	(2,183)	16,661	4,992
Capital Contributions	—	—	—
Transfers in	—	227	—
Transfers out	—	(1,186)	—
Change in net assets	(2,183)	15,702	4,992
Total net assets, July 1, 2005	(14,314)	50,831	137,027
Total net assets, June 30, 2006	\$ (16,497)	\$ 66,533	\$ 142,019

Office of Systems Integration	Department of Technology Services	Water Resources Revolving	Equipment Service	Other Internal Service Programs	Total
\$ 183,642	\$ 209,633	\$ 236,875	\$ 163,870	\$ 127,466	\$ 2,245,901
—	—	152	—	—	152
183,642	209,633	237,027	163,870	127,466	2,246,053
—	65,521	225,817	47,965	—	641,461
—	—	6,637	—	—	8,962
183,642	121,932	—	89,068	97,137	1,468,437
—	13,349	1,159	43,287	12	82,018
—	373	—	—	—	905
183,642	201,175	233,613	180,320	97,149	2,201,783
—	8,458	3,414	(16,450)	30,317	44,270
—	1,909	—	1,500	—	4,598
—	—	—	—	—	(28)
—	—	—	—	—	(222)
—	1,909	—	1,500	—	4,348
—	10,367	3,414	(14,950)	30,317	48,618
—	—	—	3,053	—	3,053
—	—	—	—	—	227
—	—	—	—	(465)	(1,651)
—	10,367	3,414	(11,897)	29,852	50,247
—	96,710	(3,414)	323,184	25,610	615,634
\$ —	\$ 107,077	\$ —	\$ 311,287	\$ 55,462	\$ 665,881

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2006
(amounts in thousands)

	Architecture Revolving	Service Revolving
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 430,301	\$ 753,706
Receipts from interfund services provided	—	11,347
Payments to suppliers	(367,560)	(501,209)
Payments to employees	—	(214,459)
Payments for interfund services used	—	(10,901)
Claims paid to other than employees	—	—
Other receipts (payments)	(47,232)	(932)
Net cash provided by (used in) operating activities	15,509	37,552
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in interfund payables and loans payable	—	—
Interest paid on operating debt	—	—
Transfers out	—	—
Net cash provided by (used in) noncapital financing activities	—	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of intangible assets	—	—
Acquisition of capital assets	—	(29,244)
Proceeds from sale of capital assets	—	—
Principal paid on notes payable and commercial paper	—	—
Payment of capital lease obligations	—	—
Interest paid	—	(532)
Contributed capital	—	—
Net cash provided by (used in) capital and related financing activities	—	(29,776)
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	—	—
Net cash provided by investing activities	—	—
Net increase (decrease) in cash and pooled investments	15,509	7,776
Cash and pooled investments at July 1, 2005	74,456	56,127
Cash and pooled investments at June 30, 2006	\$ 89,965	\$ 63,903

Prison Industries	Office of Systems Integration	Department of Technology Services	Water Resources Revolving	Equipment Service	Other Internal Service Programs	Total
\$ 202,641	\$ 156,517	\$ 209,633	\$ 235,853	\$ 163,897	\$ 118,083	\$ 2,270,631
—	—	—	28,664	—	1,859	41,870
(122,196)	(134,278)	(121,933)	(6,637)	(85,773)	(87,315)	(1,426,901)
(56,795)	—	(65,521)	(225,817)	(47,002)	(203)	(609,797)
—	—	—	(2,991)	(4,152)	—	(18,044)
(8,578)	—	—	—	—	(222)	(8,800)
—	—	(44,702)	(20,234)	(2)	63,936	(49,166)
15,072	22,239	(22,523)	8,838	26,968	96,138	199,793
146	—	—	—	—	(1,037)	(891)
(28)	—	—	—	—	—	(28)
—	—	—	—	—	(465)	(465)
118	—	—	—	—	(1,502)	(1,384)
—	—	(5,257)	—	—	—	(5,257)
(7,548)	—	(9,193)	—	(55,532)	(6)	(101,523)
416	—	—	—	—	—	416
—	—	(1,928)	—	—	—	(1,928)
—	—	(232)	—	—	—	(232)
—	—	(373)	—	—	—	(905)
—	—	—	—	3,053	—	3,053
(7,132)	—	(16,983)	—	(52,479)	(6)	(106,376)
1,049	—	1,909	152	1,500	—	4,610
1,049	—	1,909	152	1,500	—	4,610
9,107	22,239	(37,597)	8,990	(24,011)	94,630	96,643
67,313	—	89,712	7,179	59,662	150,478	504,927
\$ 76,420	\$ 22,239	\$ 52,115	\$ 16,169	\$ 35,651	\$ 245,108	\$ 601,570

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2006
(amounts in thousands)

	Architecture Revolving	Service Revolving
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (2,183)	\$ 16,661
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Interest expense on operating debt	—	532
Depreciation	123	16,209
Other	—	—
Change in assets and liabilities:		
Receivables	(105)	(1,140)
Due from other funds	(54,538)	(10,901)
Due from other governments	8,241	(3,920)
Prepaid items	34	1,980
Inventories	—	(6,001)
Other current assets	—	—
Accounts payable	366	4,859
Due to other funds	1,827	11,347
Due to component units	—	—
Due to other governments	—	—
Deposits	—	9
Contracts and notes payable	—	(857)
Advance collections	62,267	1,434
Other current liabilities	(863)	(270)
Compensated absences payable	274	744
Capital lease obligations	—	7,552
Other noncurrent liabilities	66	(686)
Total adjustments	<u>17,692</u>	<u>20,891</u>
Net cash provided by (used in) operating activities	<u>\$ 15,509</u>	<u>\$ 37,552</u>

<u>Prison Industries</u>	<u>Office of Systems Integration</u>	<u>Department of Technology Services</u>	<u>Water Resources Revolving</u>	<u>Equipment Service</u>	<u>Other Internal Service Programs</u>	<u>Total</u>
\$ 4,053	\$ —	\$ 8,458	\$ 3,414	\$ (16,450)	\$ 30,317	\$ 44,270
—	—	373	—	—	—	905
7,879	—	13,349	1,159	43,287	12	82,018
140	—	—	—	—	—	140
(193)	—	(456)	(1,022)	26	(63,034)	(65,924)
(1,520)	(10)	64,663	28,664	(1,798)	(7,363)	17,197
79	(82,876)	(26)	—	—	—	(78,502)
(42)	—	91	(18,920)	—	241	(16,616)
1,169	—	—	112	1,238	—	(3,482)
—	—	—	16,144	—	—	16,144
2,446	47,401	(53,899)	(15,983)	2,056	(783)	(13,537)
280	1,796	6	(2,991)	(2,354)	144,384	154,295
—	—	—	—	—	(4,755)	(4,755)
—	166	—	—	—	—	166
—	—	—	—	—	(2,899)	(2,899)
—	—	—	—	—	—	(857)
798	55,762	(55,718)	—	—	—	64,543
(17)	—	34	(1,739)	—	17	(2,838)
—	—	506	—	963	—	2,487
—	—	—	—	—	—	7,552
—	—	96	—	—	1	(523)
<u>11,019</u>	<u>22,239</u>	<u>(30,981)</u>	<u>5,424</u>	<u>43,418</u>	<u>65,821</u>	<u>155,523</u>
<u>\$ 15,072</u>	<u>\$ 22,239</u>	<u>\$ (22,523)</u>	<u>\$ 8,838</u>	<u>\$ 26,968</u>	<u>\$ 96,138</u>	<u>\$ 199,793</u>

(concluded)

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Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **High Technology Education Fund** accounts for construction and renovation of public buildings for educational and research purposes related to specific fields of high technology.

The **Toll Facilities Fund** accounts for fees collected for crossing state toll bridges, except for the fees administered by the Bay Area Toll Authority.

The **State University Dormitory Building Maintenance and Equipment Fund** accounts for charges to students for housing and parking, for student fees for campus unions, and for revenue bond proceeds for constructing or acquiring dormitories and other facilities.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

Other enterprise program funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Combining Statement of Net Assets

Nonmajor Enterprise Funds

June 30, 2006
(amounts in thousands)

	High Technology Education	Toll Facilities
ASSETS		
Current assets:		
Cash and pooled investments	\$ —	\$ 3,124
Investments	—	—
Restricted assets:		
Cash and pooled investments	52,149	—
Due from other governments	—	—
Net investment in direct financing leases	18,192	—
Receivables (net)	4,144	50
Due from other funds	626	5
Due from other governments	—	412
Prepaid items	—	—
Inventories	—	—
Other current assets	—	—
Total current assets	<u>75,111</u>	<u>3,591</u>
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	897	—
Investments	34,513	—
Loans receivable	—	—
Investments	—	—
Net investment in direct financing leases	328,361	—
Interfund receivables	—	—
Loans receivable	—	—
Deferred charges	1,244	—
Capital assets:		
Land	—	822
Buildings and other depreciable property	—	1,162,229
Less: accumulated depreciation	—	(683,535)
Construction in progress	—	—
Other noncurrent assets	—	—
Total noncurrent assets	<u>365,015</u>	<u>479,516</u>
Total assets	<u>\$ 440,126</u>	<u>\$ 483,107</u>

State University Dormitory Building Maintenance and Equipment	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
\$ 975,060	\$ 328,541	\$ 467,440	\$ 365,499	\$ 2,139,664
—	—	24,561	—	24,561
—	76,342	—	—	128,491
—	58,300	—	—	58,300
—	—	—	—	18,192
27,929	—	7,298	4,767	44,188
13,665	4,560	5,622	3,251	27,729
—	104,740	—	647	105,799
—	—	—	58	58
—	—	—	3,965	3,965
4,440	101	—	493	5,034
<u>1,021,094</u>	<u>572,584</u>	<u>504,921</u>	<u>378,680</u>	<u>2,555,981</u>
—	—	—	—	897
—	—	—	—	34,513
—	569,003	—	—	569,003
—	—	126,680	—	126,680
—	—	—	—	328,361
—	—	—	2,246	2,246
—	1,420,827	1,503,803	127,553	3,052,183
17,768	—	10,522	—	29,534
38,766	—	444	829	40,861
2,384,349	—	15,698	101,533	3,663,809
(897,389)	—	(14,421)	(59,634)	(1,654,979)
337,143	—	—	—	337,143
—	519	3,712	—	4,231
<u>1,880,637</u>	<u>1,990,349</u>	<u>1,646,438</u>	<u>172,527</u>	<u>6,534,482</u>
<u>\$ 2,901,731</u>	<u>\$ 2,562,933</u>	<u>\$ 2,151,359</u>	<u>\$ 551,207</u>	<u>\$ 9,090,463</u>

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Enterprise Funds

June 30, 2006
(amounts in thousands)

	High Technology Education	Toll Facilities
LIABILITIES		
Current liabilities:		
Accounts payable	\$ —	\$ 87
Due to other funds	25,070	2,343
Due to component units	7,022	—
Due to other governments	—	—
Deferred revenue	—	—
Deposits	—	46
Contracts and notes payable	—	—
Advance collections	2,399	—
Interest payable	1,593	—
Current portion of long-term obligations	19,202	—
Other current liabilities	—	—
Total current liabilities	55,286	2,476
Noncurrent liabilities:		
Interfund payables	—	—
Benefits payable	—	—
Compensated absences payable	—	—
Certificates of participation, commercial paper, and other borrowings	—	—
General obligation bonds payable	—	—
Revenue bonds payable	287,662	—
Other noncurrent liabilities	—	—
Total noncurrent liabilities	287,662	—
Total liabilities	342,948	2,476
NET ASSETS		
Investment in capital assets, net of related debt	—	497,671
Restricted – expendable:		
Construction	—	—
Debt service	97,178	—
Security for revenue bonds	—	—
Other purposes	—	—
Total expendable	97,178	—
Unrestricted	—	(17,040)
Total net assets	97,178	480,631
Total liabilities and net assets	\$ 440,126	\$ 483,107

State University Dormitory Building Maintenance and Equipment	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
\$ 16,072	\$ —	\$ —	\$ 5,975	\$ 22,134
25,764	631	—	17,676	71,484
—	—	—	—	7,022
—	—	765	16	781
54,948	126	—	—	55,074
3,184	—	—	71	3,301
2,000	—	—	—	2,000
—	—	—	1,613	4,012
16,815	2,739	25,655	—	46,802
37,166	24,077	83,505	5,475	169,425
1,416	—	—	12	1,428
<u>157,365</u>	<u>27,573</u>	<u>109,925</u>	<u>30,838</u>	<u>383,463</u>
2,246	—	—	715	2,961
—	—	14,008	—	14,008
5,232	—	—	7,003	12,235
46,330	—	56,050	—	102,380
—	—	1,199,195	—	1,199,195
2,049,412	239,875	540,250	—	3,117,199
—	676	—	138,625	139,301
<u>2,103,220</u>	<u>240,551</u>	<u>1,809,503</u>	<u>146,343</u>	<u>4,587,279</u>
<u>2,260,585</u>	<u>268,124</u>	<u>1,919,428</u>	<u>177,181</u>	<u>4,970,742</u>
—	—	1,720	42,332	541,723
440,386	—	—	5,560	445,946
1,009	39,978	—	—	138,165
—	627,303	—	—	627,303
—	—	230,211	292,142	522,353
<u>441,395</u>	<u>667,281</u>	<u>230,211</u>	<u>297,702</u>	<u>1,733,767</u>
<u>199,751</u>	<u>1,627,528</u>	<u>—</u>	<u>33,992</u>	<u>1,844,231</u>
<u>641,146</u>	<u>2,294,809</u>	<u>231,931</u>	<u>374,026</u>	<u>4,119,721</u>
<u>\$ 2,901,731</u>	<u>\$ 2,562,933</u>	<u>\$ 2,151,359</u>	<u>\$ 551,207</u>	<u>\$ 9,090,463</u>

(concluded)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Nonmajor Enterprise Funds

Year Ended June 30, 2006

(amounts in thousands)

	High Technology Education	Toll Facilities
OPERATING REVENUES		
Student tuition and fees	\$ —	\$ —
Services and sales	—	—
Investment and interest	832	—
Rent	25,676	—
Other	—	—
Total operating revenues	26,508	—
OPERATING EXPENSES		
Personal services	—	—
Services and charges	2,489	110
Depreciation	—	18,155
Interest expense	28,214	—
Amortization (recovery) of deferred charges	168	—
Other	—	—
Total operating expenses	30,871	18,265
Operating income (loss)	(4,363)	(18,265)
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	—	21
Interest expense and fiscal charges	—	—
Other	—	—
Total nonoperating revenues (expenses)	—	21
Income (loss) before capital contributions and transfers	(4,363)	(18,244)
Capital contributions	—	—
Transfers in	—	—
Transfers out	(25,070)	—
Change in net assets	(29,433)	(18,244)
Total net assets, July 1, 2005	126,611	498,875
Total net assets, June 30, 2006	\$ 97,178	\$ 480,631

* Restated

State University Dormitory Building Maintenance and Equipment	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
\$ 455,176	\$ —	\$ —	\$ —	\$ 455,176
—	—	3,266	87,876	91,142
—	50,390	116,679	1,127	169,028
—	—	—	25,746	51,422
7,308	—	4,867	5,237	17,412
462,484	50,390	124,812	119,986	784,180
119,637	2,503	10,985	14,975	148,100
132,888	—	14,670	90,219	240,376
103,600	—	807	97	122,659
93,051	—	112,526	95	233,886
—	—	—	—	168
42,738	7,984	—	8,545	59,267
491,914	10,487	138,988	113,931	804,456
(29,430)	39,903	(14,176)	6,055	(20,276)
49,706	14,350	2,022	9,062	75,161
—	(9,812)	—	(45)	(9,857)
41	(128)	899	—	812
49,747	4,410	2,921	9,017	66,116
20,317	44,313	(11,255)	15,072	45,840
—	56,942	—	—	56,942
7,410	—	—	460	7,870
(4,808)	—	—	(31,681)	(61,559)
22,919	101,255	(11,255)	(16,149)	49,093
618,227 *	2,193,554	243,186	390,175 *	4,070,628
\$ 641,146	\$ 2,294,809	\$ 231,931	\$ 374,026	\$ 4,119,721

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2006
(amounts in thousands)

	High Technology Education	Toll Facilities
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employees	\$ —	\$ 2,556
Receipts from interfund services provided	—	—
Payments to suppliers	(21,911)	(106)
Payments to employees	—	—
Payments for interfund services used.....	—	(10,128)
Claims paid to other than employees	—	—
Other receipts (payments)	60,875	(10,001)
Net cash provided by (used in) operating activities	38,964	(17,679)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in interfund payables and loans payable	—	—
Proceeds from bonds	—	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	—	—
Interest paid on operating debt	—	—
Transfers in	—	—
Transfers out	—	—
Grants received	—	—
Net cash provided by (used in) noncapital financing activities	—	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	—	—
Proceeds from revenue bonds	—	—
Retirement of revenue bonds	(36,910)	—
Interest Paid.....	—	—
Net cash provided by (used in) capital and related financing activities	(36,910)	—
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	—
Proceeds from maturity and sale of investments	—	—
Change in interfund receivables and loans receivable	—	—
Earnings on investments	—	20
Net cash provided by (used in) investing activities	—	20
Net increase (decrease) in cash and pooled investments	2,054	(17,659)
Cash and pooled investments at July 1, 2005	50,992	20,783
Cash and pooled investments at June 30, 2006	\$ 53,046	\$ 3,124

State University Dormitory Building Maintenance and Equipment	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
\$ 465,804	\$ 46,584	\$ —	\$ 118,391	\$ 633,335
—	10,532	—	3,144	13,676
(138,427)	(1,742)	(38,521)	(104,509)	(305,216)
(127,676)	(2,503)	—	(7,986)	(138,165)
(6,305)	—	—	(1,779)	(18,212)
—	—	—	(63)	(63)
(108,277)	—	(6,967)	48,649	(15,721)
85,119	52,871	(45,488)	55,847	169,634
(54)	—	(255)	—	(309)
—	—	56,050	—	56,050
—	—	(102,440)	(2,500)	(104,940)
—	(22,185)	—	—	(22,185)
—	(11,311)	—	(286)	(11,597)
7,410	—	6,622	460	14,492
(4,808)	—	(8,644)	(32,995)	(46,447)
—	55,179	—	—	55,179
2,548	21,683	(48,667)	(35,321)	(59,757)
(220,128)	—	—	(202)	(220,330)
524,738	—	—	—	524,738
(109,354)	—	—	—	(146,264)
(91,876)	—	—	—	(91,876)
103,380	—	—	(202)	66,268
—	—	(4,407)	—	(4,407)
—	—	2,847	—	2,847
—	—	—	(66)	(66)
44,117	12,006	2,022	9,002	67,167
44,117	12,006	462	8,936	65,541
235,164	86,560	(93,693)	29,260	241,686
739,896 *	318,323	561,133	336,239	2,027,366
\$ 975,060	\$ 404,883	\$ 467,440	\$ 365,499	\$ 2,269,052

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2006
(amounts in thousands)

	High Technology Education	Toll Facilities
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (4,363)	\$ (18,265)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	—	18,155
Accretion of capital appreciation bonds	2,846	—
Provisions and allowances	—	—
Accrual of deferred charges	—	29
Amortization of discounts	427	—
Amortization of deferred charges	6,168	—
Other	3,607	—
Change in assets and liabilities:		
Receivables	5,019	2,968
Due from other funds	(226)	(5)
Due from other governments	—	(351)
Prepaid items	—	—
Inventories	—	—
Net investment in direct financing leases	18,755	—
Other current assets	—	245
Loans receivable	—	—
Interfund receivables	—	—
Accounts payable	—	(57)
Due to other funds	—	(10,123)
Due to component units	7,022	—
Due to other governments	—	(8,693)
Deposits	—	(1,581)
Contracts and notes payable	—	—
Advance collections	—	—
Interest payable	(291)	—
Other current liabilities	—	(1)
Interfund payables	—	—
Deferred revenue	—	—
Benefits payable	—	—
Compensated absences payable	—	—
Other noncurrent liabilities	—	—
Total adjustments	<u>43,327</u>	<u>586</u>
Net cash provided by (used in) operating activities	\$ <u>38,964</u>	\$ <u>(17,679)</u>

State University Dormitory Building Maintenance and Equipment	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
\$ (29,430)	\$ 39,903	\$ (14,176)	\$ 6,055	\$ (20,276)
103,600	—	807	97	122,659
—	—	—	—	2,846
—	—	(450)	—	(450)
—	—	—	—	29
—	—	—	—	427
—	—	1,092	—	7,260
25,112	(1,983)	(204)	40,882	67,414
10,628	—	244	(1,343)	17,516
(2,399)	—	(2,017)	(53)	(4,700)
—	(1,685)	—	168	(1,868)
—	—	—	1,193	1,193
—	—	—	(147)	(147)
—	—	—	—	18,755
(7,688)	—	2,415	57	(4,971)
—	17,013	(26,325)	7,485	(1,827)
—	—	76	54	130
(5,539)	—	—	(4,670)	(10,266)
(3,835)	(242)	715	(803)	(14,288)
—	—	—	—	7,022
(71)	—	—	3	(8,761)
994	—	—	(6)	(593)
2,000	—	—	—	2,000
(963)	—	—	(117)	(1,080)
3,189	—	—	—	2,898
(123)	—	(5,084)	171	(5,037)
(54)	—	—	—	(54)
3,871	(135)	—	—	3,736
—	—	(2,583)	7	(2,576)
(14,173)	—	—	6,982	(7,191)
—	—	2	(168)	(166)
114,549	12,968	(31,312)	49,792	189,910
\$ 85,119	\$ 52,871	\$ (45,488)	\$ 55,847	\$ 169,634

(concluded)

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Private Purpose Trust Funds

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of private purpose trust funds.

The **Scholarshare Program Trust Fund** accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The **Unclaimed Property Fund** accounts for unclaimed money and properties held in trust by the State.

Other private purpose trust funds account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Assets

Private Purpose Trust Funds

June 30, 2006
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	\$ 1,679	\$ 43,550	\$ 706	\$ 45,935
Investments	2,098,640	—	—	2,098,640
Receivables (net)	1,515	—	980	2,495
Due from other funds	—	64,313	9	64,322
Interfund receivables	—	1,054,674	—	1,054,674
Other assets	—	70,895	—	70,895
Total assets	2,101,834	1,233,432	1,695	3,336,961
LIABILITIES				
Accounts payable	1,726	—	1,020	2,746
Due to other funds	—	—	79	79
Deposits	—	70,895	—	70,895
Other liabilities	—	1,162,537	—	1,162,537
Total liabilities	1,726	1,233,432	1,099	1,236,257
NET ASSETS				
Held in trust for benefits and other purposes	\$ 2,100,108	\$ —	\$ 596	\$ 2,100,704

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Funds

Year Ended June 30, 2006

(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Interest, dividends, and other investment income	\$ 55,300	\$ —	\$ —	\$ 55,300
Receipts from depositors	383,210	—	746	383,956
Other	77,770	—	—	77,770
Total additions	516,280	—	746	517,026
DEDUCTIONS				
Administrative expense	9,366	—	—	9,366
Payments to and for depositors	129,589	—	762	130,351
Transfers out.....	—	—	105	105
Total deductions	138,955	—	867	139,822
Change in net assets	377,325	—	(121)	377,204
Net assets, July 1, 2005	1,722,783	—	717	1,723,500
Net assets, June 30, 2006	\$ 2,100,108	\$ —	\$ 596	\$ 2,100,704

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Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net assets available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

The **Public Employees' Retirement Fund** is administered by the Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **State Teachers' Retirement Fund** is administered by the State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Teachers' Health Benefits Fund** is administered by CalSTRS and accounts for post-employment health benefits to retired members of the defined benefit program.

The **Deferred Compensation Fund** accounts for moneys withheld from the salaries of participants per the Internal Revenue Code, Sections 401(k), 457, and 403(b). The moneys are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

(continued)

(continued)

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 1, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

The **Volunteer Firefighters' Length of Service Award Fund** is administered by CalPERS and accounts for employer contributions of the agent multiple-employer retirement plan that provides awards to volunteer firefighters.

The **State Peace Officers' and Firefighters' Defined Contribution Plan Fund** is administered by CalPERS and accounts for the employer contributions to the defined contribution plan that supplements the retirement benefits provided to eligible correctional employees in the State of California.

The **Boxers' Pension Fund** accounts for contributions from professional boxers, managers, and promoters, and fees collected from admission charges to boxing events. The resources received finance a retirement fund for professional boxers.

The **Supplemental Contributions Program Fund** is administered by CalPERS and accounts for deposits by participating employees to their accounts in this plan. This fund accepts voluntary after-tax contributions and invests these contributions for the benefit of the participants in the program.

The **Flexelect Benefit Fund** accounts for funds contributed by permanent employees who elect to participate in and contribute to a flexible benefits program. The program permits eligible employees to receive one or more benefits that qualify for exclusion from gross income instead of receiving a portion of salary.

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Combining Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2006

(amounts in thousands)

	Public Employees' Retirement	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation	Judges' Retirement	Judges' Retirement II
ASSETS						
Cash and pooled investments ...	\$ 649,468	\$ 592,345	\$ 1,604	\$ 10,153	\$ 4,980	\$ 5,899
Investments, at fair value:						
Short-term	2,678,578	1,223,748	—	67,553	10,048	193
Equity securities	129,887,184	91,068,740	—	398,145	—	116,149
Debt securities	52,026,254	32,269,214	—	97,444	—	73,007
Real estate	15,230,979	11,792,384	—	—	—	20,509
Other	12,045,147	8,609,513	—	6,219,890	—	—
Securities lending collateral ...	38,011,353	27,626,193	—	—	—	—
Total investments	249,879,495	172,589,792	—	6,783,032	10,048	209,858
Receivables (net)	3,428,882	3,442,626	1,293	4,689	3,046	3,272
Due from other funds	412,723	3,128	46	74	16	34
Other assets	391,636	1,631	—	—	—	—
Total assets	254,762,204	176,629,522	2,943	6,797,948	18,090	219,063
LIABILITIES						
Accounts payable	246	4,555,403	—	1,295	—	—
Due to other funds	63	131,552	201	643	—	—
Due to other governments	—	53,488	—	—	—	—
Benefits payable	208,131	44,297	—	—	7	2
Securities lending obligations ...	38,011,353	27,626,193	—	—	—	—
Other liabilities	5,351,501	6,213	16	533	197	75
Total liabilities	43,571,294	32,417,146	217	2,471	204	77
NET ASSETS						
Held in trust for benefits and						
other purposes	\$ 211,190,910	\$ 144,212,376	\$ 2,726	\$ 6,795,477	\$ 17,886	\$ 218,986

Legislators' Retirement	Volunteer Firefighters' Length of Service Award	State Peace Officers' and Firefighters' Defined Contribution Plan	Boxers' Pension	Supplemental Contributions Program	Flexelect Benefit	Total
\$ 246	\$ 31	\$ 264	\$ 310	\$ 24	\$ 7,590	\$ 1,272,914
5	12	—	—	294	—	3,980,431
54,165	1,662	258,561	—	14,971	—	221,799,577
79,390	1,051	—	—	5,529	—	84,551,889
—	309	—	—	—	—	27,044,181
—	—	—	—	—	—	26,874,550
—	—	—	—	—	—	65,637,546
133,560	3,034	258,561	—	20,794	—	429,888,174
45	369	752	—	34	442	6,885,450
4	9	—	19	—	93	416,146
—	—	—	—	—	—	393,267
133,855	3,443	259,577	329	20,852	8,125	438,855,951
—	—	—	18	—	33	4,556,995
—	—	—	—	—	—	132,459
—	—	—	—	—	—	53,488
207	9	—	—	—	—	252,653
—	—	—	—	—	—	65,637,546
17	—	132	—	61	—	5,358,745
224	9	132	18	61	33	75,991,886
\$ 133,631	\$ 3,434	\$ 259,445	\$ 311	\$ 20,791	\$ 8,092	\$ 362,864,065

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Year Ended June 30, 2006
(amounts in thousands)

	Public Employees' Retirement	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation	Judges' Retirement	Judges' Retirement II
ADDITIONS						
Contributions:						
Employer	\$ 6,096,565	\$ 3,222,598	\$ 29,602	\$ —	\$ 120,576	\$ 24,069
Plan member	3,080,879	2,230,754	—	562,460	10,315	9,584
Total contributions	9,177,444	5,453,352	29,602	562,460	130,891	33,653
Investment income:						
Net appreciation						
in fair value of investments	16,621,497	—	—	38,487	—	14,154
Interest, dividends, and						
other investment income	8,972,113	17,505,490	143	505,606	959	1,320
Less: investment expense	(3,552,318)	(1,427,768)	—	(2,240)	—	—
Net investment income	22,041,292	16,077,722	143	541,853	959	15,474
Other	—	278	—	11,588	2,874	—
Total additions	31,218,736	21,531,352	29,745	1,115,901	134,724	49,127
DEDUCTIONS						
Distributions to beneficiaries	9,237,600	6,649,337	29,313	2,286	133,588	859
Refunds of contributions	170,929	97,453	—	7,482	323	750
Payments to and for depositors ..	—	—	—	390,652	—	—
Administrative expense	236,212	95,611	359	10,014	171	406
Other	14,039	208	—	—	—	—
Total deductions	9,658,780	6,842,609	29,672	410,434	134,082	2,015
Change in net assets	21,559,956	14,688,743	73	705,467	642	47,112
Net assets, July 1, 2005	189,630,954	129,523,633	2,653	6,090,010	17,244	171,874
Net assets, June 30, 2006	\$ 211,190,910	\$ 144,212,376	\$ 2,726	\$ 6,795,477	\$ 17,886	\$ 218,986

* Restated

Legislators' Retirement	Volunteer Firefighters' Length of Service Award	State Peace Officers' and Firefighters' Defined Contribution Plan	Boxers' Pension	Supplemental Contributions Program	Flexelect Benefit	Total
\$ —	\$ 307	\$ 8,933	\$ —	\$ —	\$ —	\$ 9,502,650
160	—	—	149	634	20,339	5,915,274
160	307	8,933	149	634	20,339	15,417,924
3,804	190	18,085	—	1,763	—	16,697,980
4	95	23	—	19	—	26,985,772
—	—	(1,591)	—	—	—	(4,983,917)
3,808	285	16,517	—	1,782	—	38,699,835
—	—	—	1	—	(1)	14,740
3,968	592	25,450	150	2,416	20,338	54,132,499
7,314	103	6,578	31	—	20,531	16,087,540
823	—	—	—	—	—	277,760
—	—	—	—	2,078	—	392,730
290	105	—	—	79	—	343,247
5	—	—	—	—	—	14,252
8,432	208	6,578	31	2,157	20,531	17,115,529
(4,464)	384	18,872	119	259	(193)	37,016,970
138,095	3,050	240,573	192	20,532	8,285	325,847,095 *
\$ 133,631	\$ 3,434	\$ 259,445	\$ 311	\$ 20,791	\$ 8,092	\$ 362,864,065

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Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

The **Receipting and Disbursing Fund** accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The **Deposit Fund** accounts for various deposits, such as those from condemnation and litigation proceedings.

The **Departmental Trust Fund** accounts for various deposits held in trust by state departments.

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2006
(amounts in thousands)

	Receiving and Disbursing
ASSETS	
Cash and pooled investments	\$ 2,614,188
Receivables (net)	403,959
Due from other funds	7,598,736
Due from other governments	11,413
Prepaid Items	29,166
Loans receivable	35,341
Other assets	174
Total assets	\$ 10,692,977
LIABILITIES	
Accounts payable	\$ 3,989,369
Due to other governments	6,587,647
Interfund payables	35,341
Tax overpayments	6,601
Deposits	22,959
Advance collections	50,106
Other liabilities	954
Total liabilities	\$ 10,692,977

Deposit	Departmental Trust	Other Agency Activities	Total
\$ 937,096	\$ 126,628	\$ 92,066	\$ 3,769,978
232,690	239	4,080	640,968
122,599	2,839	8,018	7,732,192
55,493	—	5	66,911
711	—	—	29,877
—	—	9,259	44,600
37	97	—	308
\$ 1,348,626	\$ 129,803	\$ 113,428	\$ 12,284,834
\$ 88,089	\$ 415	\$ 63,311	\$ 4,141,184
6,464	7	31,961	6,626,079
—	—	—	35,341
—	—	—	6,601
774,239	128,862	5,263	931,323
11,223	11	—	61,340
468,611	508	12,893	482,966
\$ 1,348,626	\$ 129,803	\$ 113,428	\$ 12,284,834

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2006

(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and pooled investments	\$ 2,848,048	\$ 125,557,426	\$ 125,791,286	\$ 2,614,188
Receivables (net)	423,405	97,857	117,303	403,959
Due from other funds	6,231,936	9,774,620	8,407,820	7,598,736
Due from other governments	7,030	4,681	298	11,413
Prepaid items	16,494	36,902	24,230	29,166
Loans receivable	134,301	—	98,960	35,341
Other assets	307	6	139	174
Total assets	\$ 9,661,521	\$ 135,471,492	\$ 134,440,036	\$ 10,692,977
LIABILITIES				
Accounts payable	\$ 3,623,768	\$ 29,307,705	\$ 28,942,104	\$ 3,989,369
Due to other governments	5,794,156	24,390,819	23,597,328	6,587,647
Interfund payables	134,301	—	98,960	35,341
Tax overpayments	229	50,579	44,207	6,601
Deposits	12,617	10,342	—	22,959
Advance collections	95,529	1,967,456	2,012,879	50,106
Other liabilities	921	33	—	954
Total liabilities	\$ 9,661,521	\$ 55,726,934	\$ 54,695,478	\$ 10,692,977

Deposit Fund

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and pooled investments	\$ 966,337	\$ 6,000,462	\$ 6,029,703	\$ 937,096
Receivables (net)	248,366	1,484,447	1,500,123	232,690
Due from other funds	48,983	82,817	9,201	122,599
Due from other governments	7,650	48,564	721	55,493
Prepaid items	1,452	—	741	711
Other assets	34	14	11	37
Total assets	\$ 1,272,822	\$ 7,616,304	\$ 7,540,500	\$ 1,348,626
LIABILITIES				
Accounts payable	\$ 69,641	\$ 1,635,789	\$ 1,617,341	\$ 88,089
Due to other governments	1,434	6,642	1,612	6,464
Deposits	570,980	442,482	239,223	774,239
Advance collections	5,642	10,600	5,019	11,223
Other liabilities	625,125	19,316	175,830	468,611
Total liabilities	\$ 1,272,822	\$ 2,114,829	\$ 2,039,025	\$ 1,348,626

Departmental Trust Fund

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and pooled investments	\$ 145,878	\$ —	\$ 19,250	\$ 126,628
Receivables (net)	162	77	—	239
Due from other funds	3,327	—	488	2,839
Other assets	21	76	—	97
Total assets	\$ 149,388	\$ 153	\$ 19,738	\$ 129,803
LIABILITIES				
Accounts payable	\$ 871	\$ —	\$ 456	\$ 415
Due to other governments	3	4	—	7
Deposits	147,908	—	19,046	128,862
Advance collections	11	—	—	11
Other liabilities	595	—	87	508
Total liabilities	\$ 149,388	\$ 4	\$ 19,589	\$ 129,803

Other Agency Activity Funds

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and pooled investments	\$ 99,361	\$ 4,114	\$ 11,409	\$ 92,066
Receivables (net)	4,114	—	34	4,080
Due from other funds	7,937	3,070	2,989	8,018
Due from other governments	46	—	41	5
Loans receivable	11,128	—	1,869	9,259
Total assets	\$ 122,586	\$ 7,184	\$ 16,342	\$ 113,428
LIABILITIES				
Accounts payable	\$ 73,866	\$ 1,642	\$ 12,197	\$ 63,311
Due to other governments	29,287	2,674	—	31,961
Deposits	6,445	8	1,190	5,263
Other liabilities	12,988	207	302	12,893
Total liabilities	\$ 122,586	\$ 4,531	\$ 13,689	\$ 113,428

(continued)

Combining Statement of Changes in Fiduciary Assets and Liabilities (continued)

Agency Funds

Year Ended June 30, 2006

(amounts in thousands)

Total	Balance			Balance
	July 1, 2005	Additions	Deductions	June 30, 2006
ASSETS				
Cash and pooled investments	\$ 4,059,624	\$ 131,562,002	\$ 131,851,648	\$ 3,769,978
Receivables (net)	676,047	1,582,381	1,617,460	640,968
Due from other funds	6,292,183	9,860,507	8,420,498	7,732,192
Due from other governments	14,726	53,245	1,060	66,911
Prepaid items	17,946	36,902	24,971	29,877
Loans receivable	145,429	—	100,829	44,600
Other assets	362	96	150	308
Total assets	\$ 11,206,317	\$ 143,095,133	\$ 142,016,616	\$ 12,284,834
LIABILITIES				
Accounts payable	\$ 3,768,146	\$ 30,945,136	\$ 30,572,098	\$ 4,141,184
Due to other governments	5,824,880	24,400,139	23,598,940	6,626,079
Interfund payables	134,301	—	98,960	35,341
Tax overpayments	229	50,579	44,207	6,601
Deposits	737,950	452,832	259,459	931,323
Advance collections	101,182	1,978,056	2,017,898	61,340
Other liabilities	639,629	19,556	176,219	482,966
Total liabilities	\$ 11,206,317	\$ 57,846,298	\$ 56,767,781	\$ 12,284,834

(concluded)

Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with GAAP. The inclusion of component units in the State's financial statements reflects the State's financial accountability for these entities. Following are brief descriptions of nonmajor component units.

The **California Alternative Energy and Advanced Transportation Financing Authority** was created to provide financing for the alternative energy and advanced transportation technologies.

The **California Infrastructure and Economic Development Bank** provides financing for business development and public improvements.

The **California Pollution Control Financing Authority** was created to provide financing for pollution control facilities.

The **California Health Facilities Financing Authority** was created to provide financing for the construction, equipping, and acquisition of health facilities.

The **California Educational Facilities Authority** was created to issue revenue bonds to finance loans for students attending public and private colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. The EdFund financial report included in this component unit is as of and for the year ended September 30, 2005.

California State University auxiliary organizations provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the state. This information is as of and for the year ended December 31, 2005.

The **University of California Hastings College of the Law** was established as the law department of the University of California to provide legal education programs and it has a discretely presented component unit that provides private sources of funds for academic programs, scholarships, and faculty research.

The **San Joaquin River Conservancy** was created to acquire and manage public lands within the San Joaquin River Parkway.

The **California Urban Waterfront Area Restoration Financing Authority** was created to provide financing for coastal and inland urban waterfront restoration projects.

The **California Consumer Power and Conservation Financing Authority** was created to provide financing for projects to increase power supplies, reduce demand for energy, and improve the efficiency and environmental performance of power plants.

Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2006
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
ASSETS					
Current assets:					
Cash and pooled investments	\$ 11	\$ 55,215	\$ 41,971	\$ 69,123	\$ 109,626
Investments	—	—	—	—	—
Restricted assets:					
Cash and pooled investments	—	—	—	—	2,395
Investments	—	38,022	—	—	7,237
Receivables (net)	—	9,263	—	4,297	8,657
Due from primary government	—	631	492	—	—
Due from other governments	—	—	—	—	72,479
Prepaid items	—	—	—	—	1,193
Inventories	—	—	—	—	—
Other current assets	—	—	—	—	9,933
Total current assets	<u>11</u>	<u>103,131</u>	<u>42,463</u>	<u>73,420</u>	<u>211,520</u>
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	—	—	—	—
Investments	—	60,377	—	—	2,009
Investments	—	—	—	—	—
Receivables (net)	—	—	—	—	25,309
Loans receivable	—	263,109	—	—	0
Deferred charges	—	1,283	—	—	433
Capital assets:					
Land	—	—	—	—	—
Collections – nondepreciable	—	—	—	—	—
Buildings and other depreciable property	—	—	81	48	13,094
Less: accumulated depreciation	—	—	(74)	(42)	(10,195)
Construction in progress	—	—	—	—	1,571
Other noncurrent assets	—	—	—	—	—
Total noncurrent assets	<u>—</u>	<u>324,769</u>	<u>7</u>	<u>6</u>	<u>32,221</u>
Total assets	<u>\$ 11</u>	<u>\$ 427,900</u>	<u>\$ 42,470</u>	<u>\$ 73,426</u>	<u>\$ 243,741</u>

California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	California Consumer Power and Conservation Financing Authority	Total
\$ 265,707	\$ 69,410	\$ 3,750	\$ 362	\$ 76	\$ 2,902	\$ 618,153
267,159	10,912	—	—	—	—	278,071
—	6,448	3,059	—	—	—	11,902
—	7,684	—	—	—	—	52,943
275,062	6,157	2,378	—	1	3,034	308,849
—	—	—	—	—	—	1,123
—	—	—	—	—	—	72,479
—	863	1,800	—	—	—	3,856
—	—	293	—	—	—	293
39,005	1,290	—	—	—	—	50,228
846,933	102,764	11,280	362	77	5,936	1,397,897
115,502	—	—	—	—	—	115,502
—	25,122	—	—	—	—	87,508
893,423	—	37,594	—	—	—	931,017
166,890	—	11,762	—	—	—	203,961
—	—	—	—	—	—	263,109
—	—	—	—	—	—	1,716
66,088	20,129	5,789	—	—	—	92,006
3,828	—	—	—	—	—	3,828
875,508	532,173	85,706	—	—	—	1,506,610
(264,133)	(278,487)	(37,997)	—	—	—	(590,928)
35,896	6,415	14,531	—	—	—	58,413
78,705	772	7,589	—	—	—	87,066
1,971,707	306,124	124,974	—	—	—	2,759,808
\$ 2,818,640	\$ 408,888	\$ 136,254	\$ 362	\$ 77	\$ 5,936	\$ 4,157,705

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Component Units

June 30, 2006
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
LIABILITIES					
Current liabilities:					
Accounts payable	\$ —	\$ 207	\$ 777	\$ 307	\$ 12,695
Due to other governments	—	—	665	—	—
Deposits	—	—	—	—	—
Deferred revenue	—	1,986	—	—	—
Contracts and notes payable	—	—	—	—	—
Advance collections	—	—	—	—	—
Interest payable	—	913	—	—	—
Current portion of long-term obligations	—	3,135	—	—	8,268
Other current liabilities	—	53,115	215	97	46,797
Total current liabilities	—	59,356	1,657	404	67,760
Noncurrent liabilities:					
Compensated absences payable.....	—	—	—	—	—
Loans payable	—	—	—	—	—
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	—
Capital lease obligations	—	—	—	—	—
Revenue bonds payable.....	—	103,682	—	—	36,230
Other noncurrent liabilities	—	23,002	—	—	11,979
Total noncurrent liabilities	—	126,684	—	—	48,209
Total liabilities	—	186,040	1,657	404	115,969
NET ASSETS					
Investment in capital assets, net of related debt	—	—	—	—	4,470
Restricted:					
Nonexpendable – endowment	—	—	—	—	—
Expendable:					
Endowment	—	—	—	—	—
Education	—	—	—	—	—
Statute.....	—	241,860	—	—	—
Other purposes	11	—	40,813	73,022	123,302
Total expendable	11	241,860	40,813	73,022	123,302
Unrestricted	—	—	—	—	—
Total net assets	11	241,860	40,813	73,022	127,772
Total liabilities and net assets	\$ 11	\$ 427,900	\$ 42,470	\$ 73,426	\$ 243,741

California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	California Consumer Power and Conservation Financing Authority	Total
\$ 72,158	\$ 10,015	\$ 2,207	\$ —	\$ —	\$ 2,521	\$ 100,887
—	29	—	—	—	—	694
—	1,138	319	—	—	—	1,457
55,261	—	218	—	—	—	57,465
—	10,419	—	—	—	—	10,419
—	577	—	296	—	—	873
—	727	—	—	—	—	1,640
132,327	2,890	1,009	—	—	—	147,629
82,875	4,598	—	—	6	—	187,703
342,621	30,393	3,753	296	6	2,521	508,767
3,091	6,366	320	—	—	—	9,777
—	—	—	—	—	9,078	9,078
8,114	—	—	—	—	—	8,114
208,058	662	190	—	—	—	208,910
352,806	48,044	8,092	—	—	—	548,854
257,732	1,832	8,476	—	—	—	303,021
829,801	56,904	17,078	—	—	9,078	1,087,754
1,172,422	87,297	20,831	296	6	11,599	1,596,521
121,537	219,097	59,418	—	—	—	404,522
564,305	—	16,398	—	—	—	580,703
—	—	7,245	—	—	—	7,245
609,933	—	14,526	—	—	—	624,459
—	—	—	—	—	—	241,860
—	32,806	—	—	71	—	270,025
609,933	32,806	21,771	—	71	—	1,143,589
350,443	69,688	17,836	66	—	(5,663)	432,370
1,646,218	321,591	115,423	66	71	(5,663)	2,561,184
\$ 2,818,640	\$ 408,888	\$ 136,254	\$ 362	\$ 77	\$ 5,936	\$ 4,157,705

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2006
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
OPERATING EXPENSES					
Personal services	—	—	—	—	107,376
Scholarships and fellowships	—	—	—	—	—
Supplies	—	—	—	—	—
Services and charges	10	2,784	6,644	926	152,208
Depreciation	—	—	—	—	1,412
Interest expense and fiscal charges	—	3,088	—	—	2,271
Amortization of deferred charges.....	—	74	—	—	—
Grants provided.....	—	—	—	—	51,000
Other	—	—	87	2,022	17,792
Total operating expenses	10	5,946	6,731	2,948	332,059
PROGRAM REVENUES					
Charges for Services	—	1,136	3,379	10,389	247,691
Operating grants and contributions	—	—	—	—	—
Capital grants and contributions	—	—	—	—	—
Total program revenues	—	1,136	3,379	10,389	247,691
Net (expense) revenue	(10)	(4,810)	(3,352)	7,441	(84,368)
GENERAL REVENUES					
Investment and interest income	—	11,185	—	—	7,614
Other	1	—	—	—	94
Total general revenues	1	11,185	—	—	7,708
Change in net assets	(9)	6,375	(3,352)	7,441	(76,660)
Net assets, July 1, 2005	20	235,485 *	44,165	65,581	204,432 *
Net assets, June 30, 2006	\$ 11	\$ 241,860	\$ 40,813	\$ 73,022	\$ 127,772

* Restated

California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	California Consumer Power and Conservation Financing Authority	Total
316,368	63,445	21,671	—	—	—	508,860
31,374	—	2,729	—	—	—	34,103
—	—	6,014	—	—	—	6,014
853,924	103,821	4,458	15	39	11,482	1,136,311
39,001	29,697	2,679	—	—	—	72,789
28,427	1,854	385	—	—	—	36,025
—	—	—	—	—	—	74
—	—	—	—	—	—	51,000
52,708	3,635	1,549	—	—	—	77,793
1,321,802	202,452	39,485	15	39	11,482	1,922,969
592,805	196,592	26,427	—	—	10,078	1,088,497
512,217	—	11,235	66	—	—	523,518
6,831	—	1,478	—	—	—	8,309
1,111,853	196,592	39,140	66	—	10,078	1,620,324
(209,949)	(5,860)	(345)	51	(39)	(1,404)	(302,645)
105,697	3,108	4,561	—	—	—	132,165
277,072	5,684	12,492	—	3	—	295,346
382,769	8,792	17,053	—	3	—	427,511
172,820	2,932	16,708	51	(36)	(1,404)	124,866
1,473,398 *	318,659 *	98,715 *	15	107	(4,259)	2,436,318
\$ 1,646,218	\$ 321,591	\$ 115,423	\$ 66	\$ 71	\$ (5,663)	\$ 2,561,184

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Statistical Section



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Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules:

Schedule of Net Assets by Component

Schedule of Changes in Net Assets

Schedule of Fund Balances—Governmental Funds

Schedule of Changes in Fund Balances—Governmental Funds

Sources: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Assets by Component

For the Past Five Fiscal Years

(accrual basis of accounting, amounts in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities					
Invested in capital assets, net of related debt ¹	\$ 10,983,863	\$ 14,180,116	\$ 77,734,545	\$ 79,579,676	\$ 83,489,137
Restricted	6,717,078	5,230,983	7,126,013	7,631,057	8,431,279
Unrestricted ²	<u>(19,417,429)</u>	<u>(43,927,987)</u>	<u>(52,897,395)</u>	<u>(52,631,090)</u>	<u>(54,710,847)</u>
Total governmental activities net assets	<u>\$ (1,716,488)</u>	<u>\$ (24,516,888)</u>	<u>\$ 31,963,163</u>	<u>\$ 34,579,643</u>	<u>\$ 37,209,569</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 905,632	\$ 1,405,232	\$ 1,058,136	\$ 836,524	\$ 818,405
Restricted	7,793,710	7,925,726	5,667,623	7,235,373	8,722,865
Unrestricted	<u>15,567</u>	<u>(125,809)</u>	<u>1,316,631</u>	<u>1,566,246</u>	<u>1,801,304</u>
Total business-type activities net assets	<u>\$ 8,714,909</u>	<u>\$ 9,205,149</u>	<u>\$ 8,042,390</u>	<u>\$ 9,638,143</u>	<u>\$ 11,342,574</u>
Primary government					
Invested in capital assets, net of related debt ¹	\$ 11,889,495	\$ 15,585,348	\$ 78,792,681	\$ 80,416,200	\$ 84,307,542
Restricted	14,510,788	13,156,709	12,793,636	14,866,430	17,154,144
Unrestricted ²	<u>(19,401,862)</u>	<u>(44,053,796)</u>	<u>(51,580,764)</u>	<u>(51,064,844)</u>	<u>(52,909,543)</u>
Total primary government net assets	<u>\$ 6,998,421</u>	<u>\$ (15,311,739)</u>	<u>\$ 40,005,553</u>	<u>\$ 44,217,786</u>	<u>\$ 48,552,143</u>

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

¹ In fiscal year 2004, all infrastructure assets were included in the financial statements for the first time.

² Unrestricted net assets reflect a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. In fiscal year 2003, unrestricted net assets decreased primarily as a result of lower-than-expected general revenues caused by the near-stagnant economy and the State's continued structural budget deficits.

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Schedule of Changes in Net Assets

For the Past Five Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005	2006
Governmental activities					
Expenses					
General government	\$ 7,973,649	\$ 8,600,789	\$ 8,010,598	\$ 8,808,652	\$ 9,674,816
Education	45,882,706	51,446,964	51,457,841	53,152,986	62,652,997
Health and human services	53,056,652	59,141,547	60,020,524	62,016,344	65,763,380
Resources	3,594,345	3,430,853	4,436,309	4,160,949	4,161,814
State and consumer services	1,014,797	437,134	1,029,460	1,038,327	595,602
Business and transportation	7,532,507	7,514,723	7,579,221	7,142,209	8,809,236
Correctional programs	5,803,243	6,681,270	6,214,862	6,611,219	7,299,124
Tax relief	3,672,030	3,921,433	3,007,026	2,157,280	704,306
Interest on long-term debt	1,747,104	1,780,748	1,737,696	2,408,246	2,893,537
Total expenses	130,277,033	142,955,461	143,493,537	147,496,212	162,554,812
Program revenues					
Charges for services:					
General government	4,126,078	1,136,401	4,384,986	4,731,371	4,614,567
Education	2,323,881	2,710,369	2,631,859	2,936,693	3,360,919
Health and human services	2,114,441	4,867,578	1,751,752	3,280,970	4,554,673
Resources	1,246,058	1,189,327	1,544,260	1,934,532	2,198,886
State and consumer services	568,186	454,051	496,561	601,322	640,088
Business and transportation	2,810,411	2,759,007	2,295,747	2,541,072	3,776,098
Correctional programs	12,915	12,406	13,915	12,354	37,203
Tax relief	2,604	2,216	1,982	1,784	5,463
Operating grants/contributions	34,012,965	38,409,125	41,072,413	41,135,441	42,254,065
Capital grants/contributions	1,584,290	1,302,376	916,961	1,090,419	1,272,506
Total program revenues	48,801,829	52,842,856	55,110,436	58,265,958	62,714,468
Total governmental activities net program expense	(81,475,204)	(90,112,605)	(88,383,101)	(89,230,254)	(99,840,344)
General revenues and other changes in net assets					
General revenues:					
Personal income taxes	33,025,783	32,529,941	37,926,550	42,504,352	51,251,266
Sales and use taxes	26,026,927	26,930,469	28,651,768	32,488,563	34,162,177
Corporation taxes	4,564,596	6,489,209	9,027,816	11,174,937	10,735,792
Insurance taxes	1,599,064	1,886,312	2,119,315	2,231,060	2,212,916
Other taxes	2,882,163	2,897,469	2,329,987	2,507,729	2,099,075
Investment and interest	790,514	371,935	155,430	289,363	504,655
Escheat ¹	—	—	598,681	525,897	291,549
Other	375,495	5,718	87,663	—	—
Transfers	13,475	66,630	32,965	27,727	23,259
Nonoperating grants and gifts	—	575,906	—	—	—
Special item ²	—	—	—	—	1,218,311
Total general revenues and other changes in net assets	69,278,017	71,753,589	80,930,175	91,749,628	102,499,000
Total government activities Change in Net Assets	\$ (12,197,187)	\$ (18,359,016)	\$ (7,452,926)	\$ 2,519,374	\$ 2,658,656

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

¹ Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.

² In fiscal year 2006, a related organization assumed debt on the State's behalf; refer to Note 16, Revenue Bonds.

³ Since fiscal year 2004, the Public Employees' Benefits Fund is reported as a discretely presented component unit.

	2002	2003	2004	2005	2006
Business-type activities					
Expenses					
Electric Power	\$ 4,241,000	\$ 4,985,000	\$ 5,203,000	\$ 5,655,000	\$ 5,342,000
Water Resources	770,351	739,819	731,099	731,393	949,691
Public Building Construction	294,818	347,898	296,502	299,900	334,094
State Lottery	2,913,051	2,791,144	3,347,644	3,493,984	3,911,717
Unemployment Programs	8,900,546	10,651,949	10,271,962	8,939,654	8,584,521
High Technology Education	38,415	37,727	37,261	33,690	30,871
Toll Facilities	26,058	21,796	18,968	20,861	18,265
State University Dormitory Building					
Maintenance and Equipment	168,513	220,334	426,187	449,080	491,914
State Water Pollution Control Revolving ..	—	14,970	15,131	14,638	20,427
School Building Aid.....	29,837	—	—	—	—
Housing Loan	217,523	206,864	173,629	142,085	138,988
Public Employees' Benefits ³	1,760,926	1,694,231	—	—	—
Other enterprise programs	142,556	103,974	98,654	86,612	113,976
Total expenses	19,503,594	21,815,706	20,620,037	19,866,897	19,936,464
Program revenues					
Charges for services:					
Electric Power	4,241,000	4,985,000	5,203,000	5,655,000	5,342,000
Water Resources	761,222	693,566	714,647	750,282	949,691
Public Building Construction	320,220	317,741	307,910	315,718	384,442
State Lottery	2,966,270	2,936,030	3,143,408	3,512,126	3,740,041
Unemployment Programs	7,799,776	8,230,208	9,631,916	10,459,688	10,263,447
High Technology Education	44,127	44,268	34,052	36,737	26,508
Toll Facilities	5,933	172	121	66	21
State University Dormitory Building					
Maintenance and Equipment	187,921	284,719	250,208	395,396	512,231
State Water Pollution Control					
Revolving	—	54,201	51,687	55,218	64,740
School Building Aid.....	24,348	—	—	—	—
Housing Loan	222,086	189,812	143,805	121,063	127,733
Public Employees' Benefits ³	1,682,323	2,066,530	—	—	—
Other enterprise programs	131,152	134,544	114,081	115,901	129,048
Operating grants/contributions.....	1,545	762	—	—	—
Capital grants/contributions	—	145,341	47,528	73,182	56,942
Total program revenues	18,387,923	20,082,894	19,642,363	21,490,377	21,596,844
Total business-type activities net					
program revenues (expenses)	(1,115,671)	(1,732,812)	(977,674)	1,623,480	1,660,380
Other changes in net assets					
Transfers	(13,475)	(66,630)	(32,965)	(27,727)	(23,259)
Total business-type activities					
Change in net assets	\$ (1,129,146)	\$ (1,799,442)	\$ (1,010,639)	\$ 1,595,753	\$ 1,637,121
Total primary government					
Change in net assets	\$ (13,326,333)	\$ (20,158,458)	\$ (8,463,565)	\$ 4,115,127	\$ 4,295,777

Schedule of Fund Balances – Governmental Funds

For the Past Five Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund					
Reserved	\$ 2,465,632	\$ 2,051,790	\$ 1,691,034	\$ 1,597,085	\$ 1,999,953
Unreserved	(5,987,214)	(15,419,588)	(3,231,734)	(1,410,228)	672,862
Total General Fund	\$ (3,521,582)	\$ (13,367,798)	\$ (1,540,700)	\$ 186,857	\$ 2,672,815
All other governmental funds					
Reserved	\$ 15,119,363	\$ 15,080,420	\$ 14,625,056	\$ 14,924,365	\$ 16,198,481
Unreserved, reported in:					
Special revenue funds	446,626	(3,563,435)	(1,343,432)	(329,018)	(806,558)
Capital projects funds	(456,682)	(225,697)	(226,919)	(403,106)	(882,550)
Total all other governmental funds	\$ 15,109,307	\$ 11,291,288	\$ 13,054,705	\$ 14,192,241	\$ 14,509,373

Note: Due to changes in the State's fund structure made when implementing GASB Statement No. 34, consistent fund balance information is available only since fiscal year 2002.

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Schedule of Changes in Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	1997	1998	1999	2000
Revenues				
Personal income taxes	\$ 23,176,711	\$ 27,858,619	\$ 30,862,872	\$ 39,516,018
Sales and use taxes	20,166,671	21,304,784	22,878,316	25,398,317
Corporation taxes	5,674,049	5,601,526	5,421,742	6,569,805
Insurance taxes	1,210,438	1,221,541	1,272,953	1,301,346
Other taxes	1,919,442	2,033,100	2,626,849	2,805,536
Intergovernmental	26,397,371	26,503,684	29,667,982	31,543,220
Licenses and permits	3,017,207	3,188,395	3,334,863	3,245,851
Charges for services	409,788	607,153	812,336	848,352
Fees and penalties	2,028,760	1,972,623	1,857,098	1,998,676
Investment and interest	504,934	600,612	692,738	938,897
Escheat ¹	—	—	—	—
Other	439,832	409,899	423,039	1,201,723
Total revenues	84,945,203	91,301,936	99,850,788	115,367,741
Expenditures				
General government	4,439,586	4,026,111	5,256,688	6,011,645
Education	27,661,080	29,501,259	31,048,022	36,905,181
Health and human services	38,156,169	37,333,877	41,197,842	44,702,748
Resources	1,911,656	1,975,661	2,351,796	2,678,453
State and consumer services	729,983	747,211	797,127	850,322
Business and transportation	5,809,633	5,953,332	6,752,759	7,320,420
Correctional programs	3,850,955	4,092,202	4,382,129	4,601,199
Tax relief	630,957	617,320	599,004	2,173,459
Capital outlay	669,122	1,360,788	939,749	709,698
Debt service:				
Bond and commercial paper retirement	1,891,836	2,579,211	3,295,530	3,857,694
Interest and fiscal charges	1,091,886	1,101,365	1,123,596	1,126,030
Total expenditures	86,842,863	89,288,337	97,744,242	110,936,849
Excess (deficiency) of revenues over (under) expenditures	(1,897,660)	2,013,599	2,106,546	4,430,892
Other financing sources (uses)				
General obligation bonds and commercial paper issued	2,621,090	4,125,989	3,898,770	5,766,475
Revenue bonds issued	330,507	197,418	—	59,045
Refunding/remarketing debt issued	22,198	1,030,728	357,420	—
Payment to refunding/remarketing agent	(22,198)	(1,030,728)	(357,420)	—
Capital leases ²	—	—	—	—
Transfers in	2,521,666	2,848,221	3,922,416	4,563,443
Transfers out	(2,633,793)	(2,802,024)	(3,996,505)	(4,533,817)
Transfers to component units ³	(2,235,114)	(2,396,628)	(2,822,988)	(3,550,372)
Total other financing sources (uses)	604,356	1,972,976	1,001,693	2,304,774
Net change in fund balances	(1,293,304)	3,986,575	3,108,239	6,735,666
Debt Service as a Percentage of Noncapital Expenditures ⁴	N/A	N/A	N/A	N/A

Note: GASB Statement No. 34 was implemented in fiscal year 2002. The information presented prior to that time has not been restated for changes to the State's fund structure or other reporting changes required under GASB Statement No. 34.

¹ Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.

² Prior to fiscal year 2002, proceeds from capital leases is included with general obligation bonds and commercial paper issued.

³ Prior to implementation of GASB Statement No. 34, transfers to component units were classified as other financing uses.

Under GASB Statement No. 34, payments to component units are reported as expenditures rather than transfers.

⁴ Noncapital expenditures are not available prior to fiscal year 2002.

	2001	2002	2003	2004	2005	2006
\$	44,629,742	\$ 32,874,734	\$ 32,661,274	\$ 37,722,839	\$ 42,595,352	\$ 50,798,418
	26,385,224	25,907,118	26,945,705	28,685,600	32,201,242	34,300,402
	6,580,178	4,553,105	6,861,200	8,379,316	11,191,937	10,709,792
	1,502,250	1,599,064	1,886,312	2,119,315	2,231,060	2,212,916
	2,925,693	3,038,111	2,745,987	2,422,326	2,482,335	2,367,670
	34,136,903	36,827,930	41,934,230	42,918,982	42,933,381	45,466,185
	3,276,612	2,903,858	2,995,740	3,469,741	4,954,025	5,125,223
	831,988	853,874	907,481	919,280	949,147	1,002,410
	2,239,817	5,023,910	4,184,896	4,662,893	5,388,332	6,008,306
	1,366,104	1,179,775	614,240	377,694	576,097	1,058,119
	—	—	—	598,681	525,897	291,549
	1,344,044	2,958,572	3,043,575	2,999,820	3,755,426	4,518,621
	125,218,555	117,720,051	124,780,640	135,276,487	149,784,231	163,859,611
	6,061,660	7,767,621	8,043,449	8,028,399	8,511,482	8,584,072
	40,854,070	45,324,021	50,744,179	49,526,563	52,242,779	59,768,677
	49,361,053	53,142,973	58,996,212	59,820,274	62,015,628	65,968,433
	3,516,139	3,721,729	3,368,473	3,686,083	4,077,102	4,296,715
	941,884	1,091,008	940,665	935,427	973,466	1,111,128
	8,288,123	8,493,157	8,917,181	9,119,237	8,556,618	10,370,589
	5,125,032	5,593,033	5,841,103	6,236,725	6,658,614	7,552,790
	3,686,373	3,672,030	3,897,106	2,983,818	2,136,258	810,236
	905,116	1,654,494	1,666,932	1,245,871	1,534,150	2,128,050
	5,031,347	3,618,284	4,068,685	1,384,595	3,672,119	6,375,607
	1,185,363	1,418,880	1,803,378	1,686,776	2,243,764	3,135,763
	124,956,160	135,497,230	148,287,363	144,653,768	152,621,980	170,102,060
	262,395	(17,777,179)	(23,506,723)	(9,377,281)	(2,837,749)	(6,242,449)
	3,684,115	5,292,034	9,062,000	18,385,480	5,058,339	7,750,500
	—	—	3,000,000	4,347,570	99,250	—
	4,419,665	1,105,025	275,000	1,183,875	1,937,430	5,086,944
	(619,665)	(1,105,025)	(275,000)	(1,183,875)	(1,937,430)	(4,561,944)
	—	274,955	515,996	85,390	414,738	748,037
	9,144,852	5,948,918	8,253,164	18,475,032	4,580,201	5,137,895
	(9,691,975)	(5,954,783)	(8,070,387)	(18,428,564)	(4,546,792)	(5,113,107)
	(3,659,516)	—	—	—	—	—
	3,277,476	5,561,124	12,760,773	22,864,908	5,605,736	9,048,325
	3,539,871	(12,216,055)	(10,745,950)	13,487,627	2,767,987	2,805,876
	N/A	3.8%	4.0%	2.2%	3.9%	5.7%

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Revenue Capacity

Revenue capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules:

Schedule of Revenue Base

Schedule of Revenue Payers by Industry/Income Level

Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For the Past Ten Calendar Years

(amounts in thousands)

	1996	1997	1998	1999
Personal Income by Industry				
Farm earnings	\$ 8,183,406	\$ 8,752,960	\$ 8,259,762	\$ 9,162,971
Forestry, fishing and other natural resources.....	4,373,859	4,497,779	4,753,590	4,965,573
Mining	1,933,697	2,136,394	2,127,857	2,078,359
Construction and utilities	36,333,274	39,556,088	45,694,768	51,747,677
Manufacturing	88,412,015	95,904,677	101,914,351	112,058,691
Wholesale trade	30,175,450	31,695,355	35,115,800	37,271,078
Retail trade	43,511,748	45,652,309	49,468,297	53,519,782
Transportation and warehousing	18,650,731	20,088,412	21,556,474	22,827,125
Information, finance, and insurance	67,269,510	71,959,626	80,781,342	93,152,738
Real estate	13,324,815	15,411,007	18,864,435	19,259,547
Services	201,415,250	218,314,520	241,074,809	261,658,240
Federal, civilian	17,453,320	17,452,491	17,861,217	18,164,400
Military	9,339,267	8,913,571	8,806,833	8,876,585
State and local government	74,977,305	78,759,490	83,176,888	87,348,684
Other ¹	195,094,621	201,450,201	216,552,238	217,136,733
Total personal income	\$ 810,448,268	\$ 860,544,880	\$ 936,008,661	\$ 999,228,183
Average effective rate ²	4.1%	4.1%	4.4%	4.3%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

¹ Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

² The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

	1996	1997	1998	1999
Taxable Sales by Industry				
Retail				
Apparel	\$ 11,070,931	\$ 11,530,373	\$ 11,730,772	\$ 11,458,278
General merchandise	34,681,196	36,525,845	38,777,403	42,547,887
Specialty	31,301,046	33,826,628	36,175,924	40,848,458
Food	15,182,709	15,924,286	16,114,103	17,177,888
Restuarant and Bars	26,759,500	28,253,848	30,046,028	32,456,606
Household	9,730,994	9,632,898	10,535,061	11,976,832
Building materials	14,140,601	15,642,903	17,168,811	19,924,798
Automotive	56,729,384	57,339,036	59,751,806	69,377,586
Other	6,150,449	8,572,860	9,106,561	9,821,053
Business and Personal Service	15,719,686	16,972,011	18,816,348	20,331,101
All Other	99,609,754	106,870,946	110,635,561	118,815,758
Total taxable sales	\$ 321,076,250	\$ 341,091,634	\$ 358,858,378	\$ 394,736,245
Direct Sales Tax Rate ²	5.00%	5.00%	5.00%	5.00%

Source: California State Board of Equalization

¹ Rate change was effective on July 1, 2004.

² The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund and debt service fund. It does not include the 1% local tax rate that is allocated to cities and counties.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
\$	8,088,563	\$ 7,167,545	\$ 7,778,068	\$ 8,957,317	\$ 9,938,563	\$ 9,863,515
	5,260,871	5,410,185	5,410,649	5,681,720	5,810,880	6,138,003
	2,377,528	2,642,910	2,402,962	2,754,603	3,302,884	3,647,125
	57,779,134	62,724,622	63,900,542	68,039,028	75,633,216	83,623,003
	130,175,679	118,420,332	113,263,518	114,095,365	120,579,873	127,141,258
	40,801,983	42,309,691	42,965,708	44,700,094	47,886,074	51,784,086
	58,255,765	61,363,150	62,928,800	64,616,261	67,253,945	70,317,405
	25,073,185	26,013,211	26,000,139	26,286,143	28,295,849	29,313,320
	109,045,010	113,383,250	112,419,788	115,162,147	124,371,764	130,413,281
	19,309,071	25,192,062	26,668,286	30,064,856	31,916,329	35,443,392
	294,424,391	292,076,247	296,714,117	306,822,757	329,261,858	349,922,706
	19,008,148	18,595,668	19,804,777	20,317,662	21,819,292	22,478,536
	9,315,046	9,994,601	11,002,415	12,684,992	13,997,514	14,562,177
	95,207,893	105,229,758	113,289,511	120,403,334	126,033,248	131,546,510
	229,719,645	244,780,828	243,166,424	243,868,263	258,320,592	266,724,547
	\$ 1,103,841,912	\$ 1,135,304,060	\$ 1,147,715,704	\$ 1,184,454,542	\$ 1,264,421,881	\$ 1,332,918,864
	4.8%	5.9%	4.5%	4.3%	4.5%	4.6%

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
\$	12,847,372	\$ 13,388,444	\$ 14,029,200	\$ 15,179,710	\$ 16,957,137	\$ 18,712,125
	45,829,364	47,191,016	48,486,891	50,550,818	53,939,532	56,787,153
	45,845,021	43,976,514	43,539,120	45,191,191	48,961,996	52,376,758
	18,374,398	18,823,587	18,951,412	19,407,823	19,825,771	21,128,469
	35,461,731	36,849,193	38,079,830	40,049,699	43,275,038	46,412,847
	13,592,904	13,332,175	13,983,287	15,104,217	16,405,347	17,388,704
	22,488,577	24,208,900	25,816,009	28,200,869	34,154,543	36,152,218
	81,937,244	85,400,884	87,749,497	94,766,776	103,528,856	112,167,922
	10,691,086	10,785,808	10,977,060	11,765,951	13,124,468	14,681,929
	22,185,850	22,240,823	21,812,699	21,648,470	22,306,787	23,090,910
	132,600,865	125,320,216	117,525,089	118,230,944	127,597,308	138,005,393
	\$ 441,854,412	\$ 441,517,560	\$ 440,950,094	\$ 460,096,468	\$ 500,076,783	\$ 536,904,428
	5.00%	4.75%	5.00%	5.00%	5.25% ¹	5.25%

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 1996 and 2004

Personal Income Tax Filers and Liability by Income Level ¹

	1996				2004			
	Number of Filers	Percent of Total	Tax Liability ²	Percent of Total	Number of Filers	Percent of Total	Tax Liability ²	Percent of Total
Under \$ 5,000	1,254,405	10.3 %	\$ 8,703	0.0 %	1,046,035	7.6 %	\$ 6,556	0.0 %
5,000 to 9,999	1,395,539	11.5	12,433	0.1	1,127,452	8.2	8,732	0.0
10,000 to 14,999	1,316,758	10.8	48,895	0.2	1,182,376	8.5	23,624	0.1
15,000 to 19,999	1,158,670	9.5	122,253	0.6	1,155,257	8.4	56,241	0.2
20,000 to 24,999	986,187	8.1	212,175	1.0	1,000,292	7.2	117,178	0.3
25,000 to 29,999	827,109	6.8	307,331	1.5	946,276	6.8	194,776	0.5
30,000 to 39,999	1,315,017	10.8	887,971	4.4	1,478,641	10.7	571,029	1.6
40,000 to 49,999	981,867	8.1	1,053,959	5.2	1,192,237	8.6	861,190	2.4
50,000 to 99,999	2,144,035	17.6	5,033,553	24.8	2,960,452	21.4	5,502,410	15.2
\$ 100,000 and over	792,614	6.5	12,635,511	62.2	1,743,792	12.6	28,751,605	79.7
Total	12,172,201	100.00 %	\$ 20,322,784	100.00 %	13,832,810	100.00 %	\$ 36,093,341	100.00 %

Source: California Franchise Tax Board

¹ For California resident tax returns. Calendar year 2004 is the most recent year for which data is available.

² Amounts in thousands.

Sales Tax Permits and Tax Liability by Industry

	1996				2005			
	Number of Permits ¹	Percent of Total	Tax Liability ²	Percent of Total	Number of Permits ¹	Percent of Total	Tax Liability ²	Percent of Total
Retail								
Apparel	26,777	2.8 %	\$ 553,547	3.5 %	41,596	3.9 %	\$ 982,387	3.5 %
General merchandise .	11,910	1.2	1,734,060	10.8	16,606	1.6	2,981,326	10.6
Specialty	123,050	12.6	1,565,052	9.8	211,859	20.0	2,749,780	9.8
Food	24,521	2.5	759,135	4.7	25,220	2.4	1,109,245	3.9
Restuarant and Bars ...	71,347	7.3	1,337,975	8.3	86,393	8.2	2,436,674	8.7
Household	22,778	2.3	486,550	3.0	33,765	3.2	912,907	3.2
Building materials	9,115	0.9	707,030	4.4	11,342	1.1	1,897,991	6.7
Automotive	33,512	3.5	2,836,469	17.7	36,720	3.5	5,888,816	20.9
Other	16,577	1.7	307,522	1.9	22,528	2.1	770,801	2.7
Business and Personal								
Service.....	105,281	10.8	785,984	4.9	104,358	9.8	1,212,273	4.3
All Other	529,888	54.4	4,980,488	31.0	467,442	44.2	7,245,283	25.7
Total	974,756	100.00 %	\$ 16,053,812	100.00 %	1,057,829	100.00 %	\$ 28,187,483	100.00 %

Source: California State Board of Equalization

¹ As of July 1.

² Calculated by multiplying the taxable sales by industry shown on pages 236 and 237 by the direct sales tax rate. Amounts in thousands.

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Schedule of Personal Income Tax Rates

Calendar Years 1996 - 2005

Married Filing Jointly and Surviving Spouse				
Tax Rate	1996 Income Level	1997 Income Level	1998 Income Level	1999 Income Level
1.0	Up to \$9,816	Up to \$10,032	Up to \$10,262	Up to \$10,528
2.0	9,816 – 23,264	10,032 – 23,776	10,262 – 24,322	10,528 – 24,954
4.0	23,264 – 36,714	23,776 – 37,522	24,322 – 38,386	24,954 – 39,384
6.0	36,714 – 50,968	37,522 – 52,090	38,386 – 53,288	39,384 – 56,674
8.0	50,968 – 64,414	52,090 – 65,832	53,288 – 67,346	56,674 – 69,096
9.3	\$64,414 and over	\$65,832 and over	\$67,346 and over	\$69,096 and over

Single and Married Filing Separately				
Tax Rate	1996 Income Level	1997 Income Level	1998 Income Level	1999 Income Level
1.0	Up to \$4,908	Up to \$5,016	Up to \$5,131	Up to \$5,264
2.0	4,908 – 11,632	5,016 – 11,888	5,131 – 12,161	5,264 – 12,477
4.0	11,632 – 18,357	11,888 – 18,761	12,161 – 19,193	12,477 – 19,692
6.0	18,357 – 25,484	18,761 – 26,045	19,193 – 26,644	19,692 – 27,337
8.0	25,484 – 32,207	26,045 – 32,916	26,644 – 33,673	27,337 – 34,548
9.3	\$32,207 and over	\$32,916 and over	\$ 33,673 and over	\$34,548 and over

Head of Household				
Tax Rate	1996 Income Level	1997 Income Level	1998 Income Level	1999 Income Level
1.0	Up to \$9,817	Up to \$10,033	Up to \$10,264	Up to \$10,531
2.0	9,817 – 23,264	10,033 – 23,776	10,264 – 24,323	10,531 – 24,955
4.0	23,264 – 29,988	23,776 – 30,648	24,323 – 31,353	24,955 – 32,168
6.0	29,988 – 37,114	30,648 – 37,931	31,353 – 38,803	32,168 – 39,812
8.0	37,114 – 43,839	37,931 – 44,803	38,803 – 45,833	39,812 – 47,025
9.3	\$43,839 and over	\$44,803 and over	\$45,833 and over	\$47,025 and over

Source: California Franchise Tax Board

¹ Beginning in 2005, there is an additional tax of 1% on taxable income over \$1 million for the expansion of mental health services.

Average Effective Rate

(amounts in thousands)

	1996	1997	1998	1999
Personal income tax revenue ¹	20,845,440	23,176,711	27,858,619	30,862,872
Adjusted gross income (in thousands) ² ...	512,431,675	570,690,810	627,433,733	721,662,168
Average effective rate ³	4.1%	4.1%	4.4%	4.3%

¹ Personal income tax revenue is reported on a fiscal year basis.

² Source: California Franchise Tax Board

³ The average effective rate equals personal income tax revenue divided by adjusted gross income.

Married Filing Jointly and Surviving Spouse					
2000 Income Level	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level	2005 ¹ Income Level
Up to \$10,918	Up to \$11,496	Up to \$11,668	Up to \$11,924	Up to \$12,294	Up to \$12,638
10,918 – 25,878	11,496 – 27,250	11,668 – 27,658	11,924 – 28,266	12,294 – 29,142	12,638 – 29,958
25,878 – 40,842	27,250 – 43,006	27,658 – 43,652	28,266 – 44,612	29,142 – 45,994	29,958 – 47,282
40,842 – 56,696	43,006 – 59,700	43,652 – 60,596	44,612 – 61,930	45,994 – 63,850	47,282 – 65,638
56,696 – 71,652	59,700 – 75,450	60,596 – 76,582	61,930 – 78,266	63,850 – 80,692	65,638 – 82,952
\$71,652 and over	\$75,450 and over	\$76,582 and over	\$78,266 and over	\$80,692 and over	\$82,952 and over

Single and Married Filing Separately					
2000 Income Level	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level	2005 ¹ Income Level
Up to \$5,459	Up to \$5,748	Up to \$5,834	Up to \$5,962	Up to \$6,147	Up to \$6,319
5,459 – 12,939	5,748 – 13,625	5,834 – 13,829	5,962 – 14,133	6,147 – 14,571	6,319 – 14,979
12,939 – 20,421	13,625 – 21,503	13,829 – 21,826	14,133 – 22,306	14,571 – 22,997	14,979 – 23,641
20,421 – 28,348	21,503 – 29,850	21,826 – 30,298	22,306 – 30,965	22,997 – 31,925	23,641 – 32,819
28,348 – 35,826	29,850 – 37,725	30,298 – 38,291	30,965 – 39,133	31,925 – 40,346	32,819 – 41,476
\$35,826 and over	\$37,725 and over	\$38,291 and over	\$39,133 and over	\$40,346 and over	\$41,476 and over

Head of Household					
2000 Income Level	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level	2005 ¹ Income Level
Up to \$10,921	Up to \$11,500	Up to \$11,673	Up to \$11,930	Up to \$12,300	Up to \$12,644
10,921 – 25,878	11,500 – 27,250	11,673 – 27,659	11,930 – 28,267	12,300 – 29,143	12,644 – 29,959
25,878 – 33,358	27,250 – 35,126	27,659 – 35,653	28,267 – 36,347	29,143 – 37,567	29,959 – 38,619
33,358 – 41,285	35,126 – 43,473	35,653 – 44,125	36,347 – 45,096	37,567 – 46,494	38,619 – 47,796
41,285 – 48,765	43,473 – 51,350	44,125 – 52,120	45,096 – 53,267	46,494 – 54,918	47,796 – 54,456
\$48,765 and over	\$51,350 and over	\$ 52,120 and over	\$53,267 and over	\$54,918 and over	\$54,456 and over

2000	2001	2002	2003	2004	2005
39,516,018	44,629,742	32,874,734	32,661,274	37,722,839	42,595,352
829,547,001	754,140,238	731,160,385	762,491,998	841,229,496	930,020,192
4.8%	5.9%	4.5%	4.3%	4.5%	4.6%

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Debt Capacity

Debt capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules:

- Schedule of Ratios of Outstanding Debt by Type
- Schedule of Ratios of General Bonded Debt Outstanding
- Schedule of General Obligation Bonds Outstanding
- Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Report.

Schedule of Ratios of Outstanding Debt by Type

For the Past Five Fiscal Years

(amounts in thousands, except per capita)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities					
General obligation bonds	\$ 22,110,822	\$ 26,757,371	\$ 43,924,636	\$ 45,541,417	\$ 47,003,817
Revenue bonds	784,015	3,752,040	8,101,855	8,068,980	7,300,638
Certificates of participation and commercial paper	540,092	1,856,702	849,360	752,013	923,890
Capital lease obligations	3,597,536	3,906,423	3,745,410	3,918,560	4,466,828
Total governmental activities	<u>27,032,465</u>	<u>36,272,536</u>	<u>56,621,261</u>	<u>58,280,970</u>	<u>59,695,173</u>
Business-type activities					
General obligation bonds	3,221,310	2,809,275	2,215,800	2,090,105	1,963,305
Revenue bonds	8,900,472	21,557,908	22,239,016	22,943,536	22,812,509
Certificates of participation and commercial paper	3,937,426	101,528	97,179	51,093	231,121
Total business-type activities	<u>16,059,208</u>	<u>24,468,711</u>	<u>24,551,995</u>	<u>25,084,734</u>	<u>25,006,935</u>
Total primary government	<u>\$ 43,091,673</u>	<u>\$ 60,741,247</u>	<u>\$ 81,173,256</u>	<u>\$ 83,365,704</u>	<u>\$ 84,702,108</u>
Debt as a percentage of					
personal income ¹	3.8%	5.3%	6.9%	6.6%	6.4%
Amount of debt per capita ²					
	\$ 1,239	\$ 1,716	\$ 2,255	\$ 2,283	\$ 2,290

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

¹ Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.

² Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Five Fiscal Years

(amounts in thousands, except per capita)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net general bonded debt					
General obligation bonds	\$ 25,332,132	\$ 29,566,646	\$ 35,244,356	\$ 36,735,442	\$ 39,034,092
Economic Recovery bonds	—	—	10,896,080	10,896,080	9,933,030
Less: restricted debt					
service fund	—	—	—	—	212,883
Net Economic Recovery bonds	—	—	10,896,080	10,896,080	9,720,147
Net general bonded debt	<u>\$ 25,332,132</u>	<u>\$ 29,566,646</u>	<u>\$ 46,140,436</u>	<u>\$ 47,631,522</u>	<u>\$ 48,754,239</u>
 Net general bonded debt as					
a percentage of personal income ¹	2.2%	2.6%	3.9%	3.8%	3.7%
 Amount of net general bonded					
debt per capita ²	\$ 728	\$ 835	\$ 1,282	\$ 1,304	\$ 1,318

Note: Details regarding the State's general obligation bonds can be found in Note 15 of the financial statements.

¹ Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.

² Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2006

(amounts in thousands)

Governmental activity

California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	\$ 510,900
California Library Construction and Renovation	101,790
California Park and Recreational Facilities	79,215
California Parklands	14,390
California Safe Drinking Water	133,125
California Wildlife, Coastal, and Park Land Conservation	322,915
Children's Hospital	63,495
Class-size Reduction Public Education Facilities	8,288,550
Clean Air and Transportation Improvement	1,244,125
Clean Water	61,425
Clean Water and Water Conservation	15,665
Clean Water and Water Reclamation	41,805
Community Parklands	27,975
County Correctional Facility Capital Expenditure	147,955
County Correctional Facility Capital Expenditure and Youth Facility	252,395
County Jail Capital Expenditure	40,800
Earthquake Safety and Public Building Rehabilitation	214,085
Economic Recovery	9,933,030
Fish and Wildlife Habitat Enhancement	18,135
Higher Education Facilities	1,095,285
Housing and Emergency Shelter	28,790
Housing and Homeless	5,530
Kindergarten-University Public Education Facilities	12,383,210
Lake Tahoe Acquisitions	15,480
New Prison Construction	620,810
Passenger Rail and Clean Air	487,145
Public Education Facilities	2,390,220
Safe, Clean, Reliable Water Supply	662,750
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection	783,660
Safe Neighborhood Parks	1,260,550
School Building and Earthquake	26,650
School Facilities	2,982,172
Seismic Retrofit	1,630,195
State School Building Lease-Purchase	214,900
State, Urban, and Coastal Park	10,250
Veterans' Homes	3,080
Voting Modernization	36,100
Water Conservation	36,255
Water Conservation and Water Quality	56,390
Water Security, Clean Drinking Water, Coastal and Beach Protection	762,620
Total governmental activity	47,003,817
Business-type activity	
California Water Resources Development	683,715
Veterans	1,279,590
Total business-type activity	1,963,305
Total general obligation bonds	\$ 48,967,122

Source: California State Treasurer's Office.

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years

(amounts in thousands)

	June 30	Gross Revenue ¹	Operating Expenses ²	Net Revenue	Debt Service Requirements ³			Coverage
				Available for Debt Service	Principal	Interest	Total	
Housing Loans	1997	245,284	23,804	221,480	47,395	25,397	72,792	3.04
	1998	259,260	30,662	228,598	52,525	19,688	72,213	3.17
	1999	224,359	30,381	193,978	111,095	26,231	137,326	1.41
	2000	242,830	34,267	208,563	15,600	32,257	47,857	4.36
	2001	244,932	36,521	208,411	114,445	35,941	150,386	1.39
	2002	219,460	31,656	187,804	139,930	34,965	174,895	1.07
	2003	189,288	30,635	158,653	26,735	36,216	62,951	2.52
	2004	138,438	19,439	118,999	28,665	43,683	72,348	1.64
	2005	121,063	27,687	93,376	90,970	34,813	125,783	0.74
	2006	127,733	25,654	102,079	25,715	34,949	60,664	1.68
Water Resources	1997	582,801	260,993	321,808	180,774	120,653	301,427	1.07
	1998	566,110	330,986	235,124	283,705	133,884	417,589	0.56
	1999	628,142	332,750	295,392	152,713	135,674	288,387	1.02
	2000	697,196	369,743	327,453	42,030	125,990	168,020	1.95
	2001	1,099,864	993,264	106,600	51,680	58,668	110,348	0.97
	2002	761,222	501,948	259,274	55,200	118,297	173,497	1.49
	2003	689,431	378,412	311,019	61,400	84,726	146,126	2.13
	2004	714,647	495,616	219,031	52,335	74,698	127,033	1.72
	2005	750,282	501,225	249,057	56,645	54,246	110,891	2.25
	2006	949,691	721,541	228,150	55,461	49,785	105,246	2.17
Water Pollution Control	2003	54,201	5,032	49,169	—	9,830	9,830	5.00
	2004	51,687	4,059	47,628	—	10,923	10,923	4.36
	2005	55,218	4,082	51,136	21,425	10,424	31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69

(continued)

Source: California State Controller's Office.

¹ Total gross revenues include non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Building Construction bonds, High Technology Education bonds, CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

² Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of deferred charges. In addition, operating expenses of the governmental funds do not include capital outlay and debt service.

³ Debt service requirements include principal and interest of revenue bonds.

⁴ Data from 1999 through 2006 are reported under Public Buildings Construction, High Technology Education, and New Prison Construction.

⁵ In previous years, these were reported as Leasing of Public Assets.

⁶ All revenue bonds have been redeemed.

⁷ The only source of state revenue to pay these bonds is federal transportation funds, and the state obligation to pay debt service on these bonds is limited to and dependent upon receipt of the federal funds.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years

(amounts in thousands)

	June 30	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements ³			Coverage
					Principal	Interest	Total	
Electric Power	2004	5,203	4,308	895	180	465	645	1.39
	2005	5,655	4,714	941	388	480	868	1.08
	2006	5,342	4,370	972	436	466	902	1.08
Leasing of Public Assets ⁴	1997	373,823	42,489	331,334	1,030,211	291,249	1,321,460	0.25
	1998	386,923	89,099	297,824	719,931	314,804	1,034,735	0.29
Public Buildings Construction ⁵	1999	350,276	47,646	302,630	194,006	278,807	472,813	0.64
	2000	346,548	56,771	289,777	222,693	273,883	496,576	0.58
	2001	341,781	46,802	294,979	249,121	270,037	519,158	0.57
	2002	320,220	30,643	289,577	241,628	258,957	500,585	0.58
	2003	317,741	64,148	253,593	252,189	278,400	530,589	0.48
	2004	307,910	18,480	289,430	560,964	271,836	832,800	0.35
	2005	315,718	13,837	301,881	290,210	279,474	569,684	0.53
	2006	384,442	9,832	374,610	332,345	318,098	650,443	0.58
High Technology Education ⁵	1999	47,505	2,190	45,315	33,245	40,511	73,756	0.61
	2000	47,577	2,816	44,761	34,050	39,033	73,083	0.61
	2001	46,903	1,964	44,939	37,450	37,304	74,754	0.60
	2002	44,127	2,323	41,804	33,120	35,783	68,903	0.61
	2003	44,268	3,035	41,233	34,585	34,425	69,010	0.60
	2004	34,052	4,050	30,002	35,865	32,975	68,840	0.44
	2005	36,737	3,107	33,630	37,060	30,387	67,447	0.50
	2006	26,508	2,489	24,019	36,910	19,422	56,332	0.43
New Prison Construction ^{5,6}	1999	3,521	2,831	690	9,550	2,140	11,690	0.06
	2000	2,546	983	1,563	10,340	1,308	11,648	0.13
	2001	1,377	1,791	(414)	11,205	396	11,601	(0.04)
	2002	—	—	—	—	—	—	—
	2003	—	—	—	—	—	—	—
	2004	—	—	—	—	—	—	—
	2005	—	—	—	—	—	—	—
	2006	—	—	—	—	—	—	—
Toll Facilities ⁶	1997	178,811	42,961	135,850	6,445	2,172	8,617	15.77
	1998	188,103	31,805	156,298	50,405	1,053	51,458	3.04
	1999	—	—	—	—	—	—	—
	2000	—	—	—	—	—	—	—
	2001	—	—	—	—	—	—	—
	2002	—	—	—	—	—	—	—
	2003	—	—	—	—	—	—	—
	2004	—	—	—	—	—	—	—
	2005	—	—	—	—	—	—	—
	2006	—	—	—	—	—	—	—

	June 30	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements ³			Coverage
					Principal	Interest	Total	
California State University	1997	282,443	190,212	92,231	29,852	28,049	57,901	1.59
	1998	309,108	223,164	85,944	30,585	30,774	61,359	1.40
	1999	305,732	237,587	68,145	9,380	30,328	39,708	1.72
	2000	244,555	211,296	33,259	24,224	32,215	56,439	0.59
	2001	248,543	177,380	71,163	122,486	31,213	153,699	0.46
	2002	187,921	101,682	86,239	90,372	26,711	117,083	0.74
	2003	238,201	129,413	108,788	85,895	39,841	125,736	0.87
	2004	250,208	172,910	77,298	113,658	49,167	162,825	0.47
	2005	395,396	302,275	93,121	90,025	52,696	142,721	0.65
	2006	512,231	303,261	208,970	109,354	91,876	201,230	1.04
CSU Channel	2003	5,844	—	5,844	—	4,058	4,058	1.44
Island Financing Authority	2004	5,449	—	5,449	—	4,205	4,205	1.30
	2005	8,149	10	8,139	—	5,541	5,541	1.47
	2006	8,377	11	8,366	—	6,123	6,123	1.37
Building Authorities	1997	26,581	275	26,306	10,425	12,289	22,714	1.16
	1998	38,288	15	38,273	19,026	18,886	37,912	1.01
	1999	76,634	96	76,538	19,834	35,936	55,770	1.37
	2000	172,770	23	172,747	32,482	49,581	82,063	2.11
	2001	61,166	316	60,850	35,917	45,762	81,679	0.74
	2002	86,474	123	86,351	37,646	43,748	81,394	1.06
	2003	84,391	—	84,391	39,065	43,040	82,105	1.03
	2004	82,823	—	82,823	40,600	40,403	81,003	1.02
	2005	86,624	—	86,624	42,296	38,994	81,290	1.07
	2006	94,985	—	94,985	43,862	81,253	125,115	0.76
Golden State Tobacco	2003	4,947	—	4,947	—	59,369	59,369	0.08
Securitization Corporation	2004	427,159	367	426,792	60,427	298,708	359,135	1.19
	2005	427,159	305	426,854	55,500	330,652	386,152	1.11
	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
Toll Bridge Seismic Retrofit ⁶	2004	139,366	119,141	20,225	—	28,615	28,615	0.71
	2005	131,791	97,386	34,405	—	28,615	28,615	1.20
	2006	—	—	—	—	—	—	—
Grant Anticipation Revenue Vehicles ⁷	2004	13,150	—	13,150	—	13,150	13,150	1.00
	2005	65,134	—	65,134	41,545	23,589	65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00

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Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules:

Schedule of Demographic and Economic Indicators
Schedule of Employment by Industry

Schedule of Demographic and Economic Indicators

For the Past Ten Calendar Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Population (in thousands)				
California ¹	31,962	32,452	32,862	33,417
% Change	0.8%	1.5%	1.3%	1.7%
United States ²	269,394	272,647	275,854	279,040
% Change	1.2%	1.2%	1.2%	1.2%
Total personal income (in millions)				
California ³	\$ 810,448	\$ 860,545	\$ 936,009	\$ 999,228
% Change	5.8%	6.2%	8.8%	6.8%
United States ³	\$ 6,512,485	\$ 6,907,332	\$ 7,415,709	\$ 7,796,137
% Change	6.0%	6.1%	7.4%	5.1%
Per capita personal income				
California ⁴	\$ 25,357	\$ 26,517	\$ 28,483	\$ 29,902
% Change	5.0%	4.6%	7.4%	5.0%
United States ⁴	\$ 24,175	\$ 25,334	\$ 26,883	\$ 27,939
% Change	4.8%	4.8%	6.1%	3.9%
Labor force and employment (in thousands)				
California				
Civilian labor force ⁵	15,436	15,793	16,167	16,431
Employed ⁵	14,304	14,781	15,204	15,567
Unemployed ⁵	1,132	1,012	963	864
Unemployment rate ⁵	7.3%	6.4%	6.0%	5.3%
United States unemployment rate ⁶	5.4%	4.9%	4.5%	4.2%

¹ Source: Demographic Research Unit, California Department of Finance

² Source: Bureau of the Census, United States Department of Commerce

³ Source: Bureau of Economic Analysis, United States Department of Commerce

⁴ Calculated by dividing total personal income by population.

⁵ Source: Labor Market Information Division, California Employment Development Department

⁶ Source: Bureau of Labor Statistics, United States Department of Labor

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	34,099	34,784	35,393	35,990	36,522	36,982
	2.0%	2.0%	1.8%	1.7%	1.5%	1.3%
	282,217	285,226	288,126	290,796	293,638	296,507
	1.1%	1.1%	1.0%	0.9%	1.0%	1.0%
\$	1,103,842	\$ 1,135,304	\$ 1,147,716	\$ 1,184,455	\$ 1,264,422	\$ 1,332,919
	10.5%	2.9%	1.1%	3.2%	6.8%	5.4%
\$	8,422,074	8,716,992	\$ 8,872,871	\$ 9,150,908	\$ 9,717,173	\$ 10,224,761
	8.0%	3.5%	1.8%	3.1%	6.2%	5.2%
\$	32,372	\$ 32,639	\$ 32,428	\$ 32,911	\$ 34,621	\$ 36,042
	8.3%	0.8%	-0.6%	1.5%	5.2%	4.1%
\$	29,843	\$ 30,562	\$ 30,795	\$ 31,468	\$ 33,092	\$ 34,484
	6.8%	2.4%	0.8%	2.2%	5.2%	4.2%
	16,858	17,152	17,331	17,404	17,500	17,696
	16,024	16,220	16,168	16,213	16,408	16,747
	833	932	1,163	1,191	1,092	949
	4.9%	5.4%	6.7%	6.9%	6.2%	5.4%
	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%

Schedule of Employment by Industry

For Calendar Years 1996 and 2005

Industry	1996		2005	
	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment
Services	4,684,200	35.7%	5,717,300	37.7%
Government				
Federal	209,000	1.6%	193,800	1.3%
Military	86,800	0.7%	55,300	0.4%
State and Local.....	1,817,500	13.8%	2,164,800	14.2%
Retail trade	1,407,700	10.7%	1,654,200	10.9%
Manufacturing	1,778,100	13.5%	1,512,700	10.0%
Information, finance, and insurance	935,600	7.1%	1,118,000	7.4%
Construction and utilities	571,800	4.3%	957,600	6.3%
Wholesale trade	574,100	4.4%	673,100	4.4%
Transportation and warehousing	412,600	3.1%	431,300	2.8%
Farming	408,300	3.1%	375,800	2.5%
Real estate	240,100	1.8%	283,800	1.9%
Natural resources and mining.....	25,900	0.2%	23,300	0.2%
Total	13,151,700	100.0%	15,161,000	100.0%

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules:

Schedule of Full-time Equivalent State Employees by Function

Schedule of Operating Indicators by Function

Schedule of Capital Asset Statistics by Function

Schedule of Full-time Equivalent State Employees by Function

For the past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Resources	State and Consumer Services	Business and Transportation	Correctional Programs	Total
1997	27,320	95,714	36,789	17,932	12,992	36,870	44,349	271,966
1998	27,225	93,891	29,493	17,999	13,124	37,147	45,672	264,551
1999	27,296	100,596	36,733	17,849	13,561	39,987	46,838	282,860
2000 ¹	22,713	106,971	43,860	18,732	14,112	42,327	47,361	296,076
2001	23,597	115,073	45,775	19,292	14,535	44,348	48,620	311,240
2002	22,007	122,078	48,749	20,575	14,927	45,145	48,796	322,277
2003	21,738	121,760	50,271	20,047	14,884	43,426	49,268	321,394
2004	20,661	122,040	49,868	19,343	15,039	41,448	48,461	316,860
2005	19,884	119,162	50,490	18,935	15,023	41,450	48,740	313,684
2006	20,336	121,973	49,569	19,076	15,126	41,342	50,171	317,593

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by treating each person who works full time as one employee and those who work part time as fractional positions based on time worked.

¹ Beginning in fiscal year 1999-2000, employees for the State Compensation Insurance Fund moved from the general government classification to the health and human services classification.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	1997	1998	1999	2000
General Government				
State Lottery				
Total revenue ¹	\$ 2,063	\$ 2,294	\$ 2,498	\$ 2,598
Contributions to Education Fund ¹	\$ 728	\$ 804	\$ 868	\$ 907
Judicial Council of California				
Supreme Court ²				
Cases filed.....	7,601	8,660	8,310	9,071
Cases disposed.....	7,419	8,235	8,608	8,880
Courts of Appeal				
Notices of appeal filed ³				
Civil	7,963	8,256	7,866	7,473
Criminal	8,818	8,513	7,791	7,500
Juvenile	2,021	2,203	2,434	2,842
Trial Courts				
Total civil cases ⁴				
Filings	1,799,785	1,700,451	1,592,586	1,513,598
Dispositions	1,636,261	1,652,680	1,469,556	1,353,473
Department of Food and Agriculture				
Milk production--million lbs ⁵	27,582	27,620	30,444	32,245
Acres of farm land ⁵	28,700	28,500	28,100	28,000
Education				
Public Colleges and Universities				
Fall Enrollment				
Community Colleges.....	1,314,680	1,331,758	1,400,954	1,585,238
California State University.....	343,779	349,804	359,179	367,363
University of California.....	169,862	173,643	178,410	183,355
K-12 Schools				
Fall Enrollment				
Public.....	5,612,965	5,727,303	5,844,111	5,951,612
Private.....	615,011	622,665	628,746	640,802

Sources: California Departments of Corrections and Rehabilitation, Finance, Fish and Game, Health Services, Motor Vehicles, Social Services, Transportation; California Energy Commission; California Highway Patrol; California State Lottery; Employment Development Department; Franchise Tax Board; Judicial Council of California; and the U.S. Department of Agriculture, National Agricultural Statistics Service

¹ Dollars in millions.

² Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and state bar matters.

³ Includes only one notice of appeal per case.

⁴ Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.

⁵ Data based on calendar year.

⁶ Total nonfarm and farm.

⁷ Items reported by license year as of September 30, 2006.

⁸ Data compiled from a 10% sample of California licensed drivers.

⁹ A center-line mile is measured by the yellow dividing strip that runs down the middle of the road regardless of the number of lanes on each side.

N/A = not available

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$	2,894	\$ 2,896	\$ 2,782	\$ 2,974	\$ 3,334	\$ 3,585
\$	1,032	\$ 1,027	\$ 977	\$ 1,044	\$ 1,149	\$ 1,259
	8,891	8,917	8,862	8,564	8,990	N/A
	9,047	8,802	8,652	8,565	8,535	N/A
	6,843	6,850	6,917	6,484	6,142	N/A
	6,776	6,361	6,493	6,625	6,312	N/A
	2,670	2,631	2,481	2,703	2,626	N/A
	1,484,550	1,554,058	1,549,613	1,499,592	1,423,849	N/A
	1,316,805	1,348,094	1,372,977	1,351,903	1,295,573	N/A
	33,217	35,065	35,437	36,465	37,564	N/A
	27,800	27,600	27,100	26,700	26,400	N/A
	1,686,896	1,746,602	1,634,340	1,583,543	1,606,858	N/A
	387,311	406,615	407,530	395,825	405,282	N/A
	191,903	201,297	208,391	207,909	209,080	N/A
	6,050,895	6,147,375	6,244,403	6,298,769	6,322,189	6,312,103
	648,564	631,619	608,940	599,605	591,056	594,597

(continued)

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	1997	1998	1999	2000
Health and Human Services				
Department of Health Services				
Vital Statistics				
Live Births ⁵	524,174	521,265	518,073	531,285
Department of Social Services				
Total Food Stamp Households (avg per month)	1,085,556	914,322	794,645	716,178
Employment Development Department				
Total Payroll employment ^{1,5,6}	13,798,100	14,294,000	14,712,400	15,196,600
Resources				
Department of Fish and Game				
Sport fishing licenses sold ⁷	2,910,244	3,035,468	3,142,705	3,178,869
Hunting licenses sold ⁷	1,275,947	1,336,656	1,451,379	1,551,461
California Energy Commission				
Electrical energy generation (million kilowatt-hours)	255,080	276,412	275,803	280,497
State and Consumer Services				
Franchise Tax Board				
Personal Income Tax ⁵				
Number of tax returns filed	12,473,473	12,796,604	13,126,133	13,440,952
Taxable Income ¹	\$ 473,084	\$ 522,563	\$ 609,167	\$ 706,586
Total Tax Liability ¹	\$ 23,878	\$ 26,204	\$ 33,106	\$ 40,370
Corporation Tax ⁵				
Number of returns.....	443,757	460,567	481,036	497,844
Income reported for taxation ¹	\$ 54,167	\$ 50,521	\$ 45,319	\$ 33,860
Total Tax Liability ¹	\$ 5,203	\$ 5,023	\$ 5,305	\$ 5,913
Business and Transportation				
Department of Motor Vehicles				
Motor vehicle registration ⁴	25,791,370	27,534,424	28,221,022	22,616,580
License issued by age ^{5,8}				
Under age 18.....	289,784	312,585	268,542	266,807
Between 18-80.....	19,861,117	20,089,055	20,389,653	20,756,909
Over age 80.....	336,476	342,632	376,495	380,393
California Highway Patrol				
Total number of DUI arrests ⁵	91,362	89,079	86,357	81,383
Department of Transportation				
Highway center-line miles—rural ^{5,9}	11,396	11,400	11,399	11,385
Highway center-line miles—urban ^{5,9}	3,810	3,806	3,807	3,795
Correctional Programs				
Department of Corrections and Rehabilitation				
Division of Adult Institutions				
Institution population at December 31 each year	152,577	157,187	158,519	158,450
Division of Juvenile Justice				
Institution population at June 30 each year	8,874	8,297	7,761	7,482

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
527,371	529,245	540,827	544,685	N/A	N/A
663,395	678,294	682,202	722,519	792,628	N/A
14,911,200	14,907,400	14,845,000	15,083,300	15,352,000	15,519,900
3,139,818	3,103,415	2,978,338	2,945,783	2,887,023	2,770,929
1,575,070	1,513,271	1,541,737	1,566,407	1,594,252	895,693
265,059	272,509	276,969	289,359	287,977	N/A
13,602,180	13,575,583	13,624,349	13,832,810	N/A	N/A
\$ 621,512	\$ 601,713	\$ 619,166	\$ 695,075	N/A	N/A
\$ 31,284	\$ 28,568	\$ 30,374	\$ 36,093	N/A	N/A
520,056	550,853	589,310	616,805	N/A	N/A
\$ 17,560	\$ 29,686	\$ 50,819	\$ 82,328	N/A	N/A
\$ 5,122	\$ 5,601	\$ 6,227	\$ 7,123	N/A	N/A
30,163,179	30,875,085	31,017,017	33,289,925	33,363,963	N/A
278,440	288,444	283,258	287,800	277,168	N/A
21,288,657	21,848,657	21,937,723	22,073,101	22,155,604	N/A
410,630	468,709	466,105	482,340	494,577	N/A
80,312	82,375	87,496	94,023	89,946	N/A
11,421	11,439	11,414	11,380	11,090	N/A
3,780	3,843	3,811	3,829	4,123	N/A
155,365	158,099	160,362	162,687	166,723	171,310
6,942	5,954	5,024	4,067	3,348	2,962

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Five Fiscal Years

	2002 ¹	2003 ²	2004 ³	2005	2006
General Government					
Department of Food and Agriculture					
Vehicles	786	941	929	903	907
Square footage of structures (in thousands).....	N/A	1,539	1,526	1,526	1,512
Department of Justice					
Vehicles	999	1,012	967	969	968
Department of Military					
Vehicles	173	173	155	152	210
Square footage of structures (in thousands).....	N/A	5,091	5,218	3,348	3,388
Department of Veterans Affairs					
Veterans homes.....	3	3	3	3	3
Vehicles	180	157	157	139	111
Square footage of structures (in thousands).....	N/A	1,141	1,598	1,598	1,598
Education					
California State University					
Vehicles ⁴	N/A	N/A	N/A	N/A	601
Campuses	23	23	23	23	23
Square footage of structures (in thousands)	NA	50,476	58,983	59,588	59,921
Health and Human Services					
Department of Developmental Services					
Vehicles	771	886	900	836	655
Developmental centers	7	7	7	7	7
Square footage of structures (in thousands)	N/A	5,914	5,160	5,185	5,181
Department of Mental Health					
Vehicles	421	425	438	439	655
State hospitals	4	4	4	4	5
Square footage of structures (in thousands)	N/A	4,527	4,628	4,626	4,673

Sources: Capital asset information is reported primarily by the California Department of General Services with some information from the California Departments of Corrections and Rehabilitation, Mental Health, Parks and Recreation, and the California State University.

¹ The California Department of General Services was not able to produce records for the square footage of structures for fiscal year 2002.

² For fiscal year 2003, the square footage of structures information is from February 2003 because June 2003 information is not available.

³ For fiscal year 2004, the square footage of structures information is from November 2004 because June 2004 information is not available.

⁴ Prior to fiscal year 2006, the California Department of General Services did not require the California State University to report its vehicles.

⁵ Prior to fiscal year 2006, the vehicles reported by the Department of Corrections and Rehabilitation included leased vehicles.

N/A = not available

	2002 ¹	2003 ²	2004 ³	2005	2006
Resources					
Department of Fish and Game					
Vehicles	3,005	2,754	2,754	3,157	3,182
Square footage of structures (in thousands)	N/A	1,108	1,108	1,108	1,112
Department of Forestry and Fire					
Vehicles	3,054	3,071	3,079	3,016	2,572
Square footage of structures (in thousands)	N/A	3,656	3,892	3,892	3,885
Department of Parks and Recreation					
Vehicles	3,753	2,467	2,709	3,044	2,742
State Parks	266	273	277	278	278
Acres of state park land (in thousands)	1,433	1,461	1,488	1,506	1,552
Square footage of structures (in thousands)	N/A	6,732	6,510	6,348	6,350
State Lands Commission					
Vehicles	58	56	56	56	49
Acres of land (in thousands)	N/A	4,608	4,498	4,498	4,496
State and Consumer Services					
Department of Consumer Affairs					
Vehicles	1,257	762	646	628	1,050
Department of General Services					
Vehicles	6,087	7,451	6,895	6,883	6,894
Square footage of structures (in thousands)	N/A	14,812	15,981	15,995	17,350
Business and Transportation					
California Highway Patrol					
Vehicles	3,930	4,373	3,933	3,930	4,105
Square footage of structures (in thousands)	N/A	1,034	1,146	1,147	1,087
Department of Motor Vehicles					
Vehicles	434	434	395	395	373
Square footage of structures (in thousands)	N/A	1,853	1,853	1,853	1,827
Department of Transportation					
Vehicles	11,152	11,057	11,039	10,856	11,048
Square footage of structures (in thousands)	N/A	5,723	6,274	6,284	6,632
Correctional Programs					
Department of Corrections and Rehabilitation					
Vehicles ⁵	6,795	7,221	7,189	7,006	4,356
Prisons	32	32	32	32	32
Square footage of structures (in thousands)	NA	39,591	40,483	40,472	40,622

STATE OF CALIFORNIA

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